



Ethics Matter: A Conversation with Dov Seidman

[Ethics Matter Series](#)

[Dov Seidman](#), [Art Kleiner](#), [Julia Taylor Kennedy](#)

- [Introduction](#)
- [Discussion](#)
- [Questions](#)

Introduction

JULIA KENNEDY: Welcome to Ethics Matter. I'm Julia Taylor Kennedy, program officer for Ethics Matter here at the Carnegie Council. It's great to see you all tonight.

When looking for people to feature in Ethics Matter, we look for folks who have embedded values in their careers. Who better than LRN CEO Dov Seidman, who has said he makes his living as "a moral philosopher in a suit." So we're very glad he is wearing a suit for us this evening. You'll hear more about him in a moment.

But, first, allow me to introduce our august moderator of today's event, Art Kleiner. As editor-in-chief of [strategy+business](#) magazine and a long-time writer and professor, Art often looks at the intersection of values and profits. He is just about to publish a feature on Dov Seidman, so this seemed a great time to bring him back to Ethics Matter as moderator.

Welcome, Art. I hope you all enjoy the program. I know I'm looking forward to it.

ART KLEINER: Thank you all for coming, and welcome to this, what I think will be an extremely interesting and timely conversation about values and their position in the world.

I like to think sometimes that behind every highly placed leader, behind every person in authority, no matter how august and well-put-together they may seem to be, there is a kid walking along the beach looking at all of the moral ambiguities in every decision they have to make and saying to himself or herself, "What do I do now?"

We are here to talk with Dov Seidman, who has an answer to that question, which is: "Don't ask, 'What do I do now?' but ask, 'How do I do it and improve the way that I do it?'"

As Julia said, Dov is the CEO of LRN, which is a global firm that helps companies navigate, shall we say, regulatory and morally ambiguous issues and helps them do that with a stronger and stronger sense of the values that they bring to their work.

I think our conversation couldn't be more timely, and I suspect you'll agree. Already this year, 2012, is the year of Greg Smith's [farewell letter](#) to Goldman Sachs, in which he talked about the toxic environment that it has become. It's the year that Apple has suddenly been pointed at for [avoiding millions of dollars in taxes](#) and fostering another [toxic environment in its factories](#) and ignoring all of the ramifications of this until forced to acknowledge them. This is the year that Wal-Mart was discovered to be [bribing government officials in Mexico](#) and covering it up systematically.

And these are companies that are really renowned for being icons of good corporate behavior. So you can just imagine what the sort of fly-by-nights are doing out there on their way to making their deposits in the Cayman Islands.

These are issues of legal compliance, perhaps, and issues of negotiation and fines, and some people may even go to prison at various times. But basically these are issues of behavior and values. The punishment is so much more often in the awareness and the opinion of the rest of us than it is in the actual legal punishment.

Within each one of those decisionmakers walking along the beach is somebody who is trying to decide, "Which path do I take?" The choice of that path on a day-to-day basis probably depends quite a bit on your view of humanity and the way it affects your work.

The question that is on the table for us, the question that I think you deal with every day in your work, Dov, is:

Are these values that we read about in the newspaper the norm or are those the aberration? Which values are most prevalent in the leaders and in ourselves? And how do we bring the values—the ethics, if you will, that are more ennobling, that have better long-term consequences, that are more understanding of humanity—how do we bring those to the surface?

With that, we are going to talk for about half-an-hour and then we will do question-and-answer. I will try to use that time to draw out from Dov the kinds of insights that are in this book. He is the author of, in its second edition, [How: Why How We Do Anything Means Everything...in Business \(and in Life\)](#), which, among other people, [Bill Clinton](#) wrote the foreword and says that "this new focus, the focus on shared responsibility, shared benefits, and shared values, will require all of us to think about the how of what we do."

Along the way, we will talk about the research report that Dov and his firm just finished and are publishing, which has to do with studies of how companies and organizations are expressing their values in their actions and how the way in which a company behaves and how its ethics line up with its performance.

But before we get there, you have said that you came of age in the era of "Just Do It" and that shaped your world, and you discovered moral philosophy as a calling around that time. So talk about those two poles, if you will. This is the 1980s. Where were you and how did you end up on this path?

Discussion

DOV SEIDMAN: Let me just say it's nice to be with you, Art. We've had a longstanding debate that I think neither of us wins, but we come together with good combustion. It is an honor to be here at the Carnegie Council and engage with all of you.

Imagine running around—I've been described as "a moral philosopher who wears a suit"; in other words, applying it in the rough-and-tumble world of business—but imagine being the "E" before Enron, running around with the idea called "how" in a world in which managers routinely told people, "Just get it done, I don't care how. You know, don't hire child labor, don't do something stupid, but, other than that, just do it by Friday or by the end of today. Just do it. I don't care how."

The idea for me was that we have cheapened the word "how" because we only use it as an adverb— How's it going? How are you? How am I going to get from here to there?—and we count with this word. How much market share? How much GDP? How much profit? How much revenue? How many page views? How many friends? How many followers?

As a trained philosopher, I felt that what we needed wasn't to see "how" as an adverb, but a noun—it's "the how" that makes the difference. Let's get our hows right. We need an ethic of human endeavor that allows us to manifest our values and create value from values.

But I think you're trying to ask me, "Where did this come from?" Is that fair enough?

ART KLEINER: Fair enough.

DON SEIDMAN: So I would have to swap out this chair for a couch.

We tend to romanticize our past, but there are probably two life dots that I can connect to give you a sense of why I had this set of convictions and passion to take things that people have kept apart in business, principles and profits, and really see that they not only belong together but they must be in a reinforcing relationship.

Let me go back to first grade. I grew up learning-disabled. You mentioned a book that I had written. I didn't read a book until I was 17.

In fifth grade, I remember being in class, like this was yesterday. I looked around and all of the students were in the story. It was a fascinating story. But I was petrified to read out loud. So I went to the ceiling and I tried to figure out the formula: When is this teacher going to get to me?

I started to experience life in the moment and always on the ceiling of life, figuring out the human dynamics—Who else is suffering in the class? Who else is scared to read? I just became very situational, really just trying to understand the dynamics around me. I believe that that's when a passion for the human condition and why people are the way they are and why they are treated the way they are started.

Then fast-forward to applying to college. I went to UCLA, but I at first did not get into UCLA. Every Saturday for about three years, my friend Reuben and I washed [Lionel Richie's](#) cars. I mention Lionel Richie because he is popular again these days. We waxed his cars. Remember [The Karate Kid](#)—"wax on, wax off"? I did this every Saturday for three years to pay for college.

UCLA admitted him and not me. So I wrote UCLA a letter saying: "You've taken my friend and I plead hardship.

Please admit me so I can keep washing cars with my friend Reuben."

They said: "We will, under the condition that you enroll in remedial English"—because I didn't get a 1000 on the SAT, I got a 970 on the SAT. I practiced for another six months and I moved my score dramatically all the way to a 980 from a 970.

Here I was in remedial English. If ever a seeming curse would turn out to be a blessing, here is what happened:

I tried to get into history—shut out—poly sci. Every easy class, so to speak, was taken. But the one class that was open was the moral philosophy class that intimidated everybody else. So I enrolled in moral philosophy.

Philosophy rewards you for reading just 10 pages in a thoughtful, deep way, and history rewards you for skimming 500. So I would have flunked history. Here I was in a moral philosophy class, and I felt at home. The questions of right versus wrong, the questions of social justice—it just felt like my entire life was at that moment.

A love affair with ideas, with the process of thinking and rethinking fundamentals, a love affair with asking questions, a quest for the truth, ignited in me a passion for learning. I think that learning to read and write and reason was literally a byproduct of this engagement with philosophy.

I think the proudest thing that I could say is, in addition to being B.E. [phonetic], I have the privilege of leading a company today that has about 30 conference rooms all over the world and every single one of them is named after a moral philosopher. We make a living applying moral philosophy to the world. The irony is not lost on me that it seems to be working.

ART KLEINER: Let's start there. We originally began talking about this when you came to *strategy+business* and said, "I'd really like to do an article on the fact that companies are changing. They have been oriented to just doing it. They haven't been paying attention to values. And now that is changing. They are no longer going to be rewarded for poor behavior."

I expressed some skepticism about this. I scrolled down the list of, let's say, the first 10 companies on the [Fortune 500](#) and didn't really see any there that were noted as the most human-oriented or the highest value, the most enlightened organizations one might find.

One of the exceptions I thought at the time was Wal-Mart. One of the exceptions that I didn't think at the time was ExxonMobil. Now one hears tremendous things about ExxonMobil and their ethics and values.

So I said, "First of all, can you really pin down a corporation as being moral or not moral, ethical or not ethical, high-value or low value? Can you really say that a corporation is one of those things? Then, how do you know, how can you say that they really are moving in a better direction?"

DOV SEIDMAN: I think to stop and give an entire company—some of these companies have 200,000 employees—their grade, whether they're moral or not—we're all on a journey. We are trying to perfect this union. Every day politicians don't tell me the truth and innocent people go to jail. I think we live in a great country because we are still trying to perfect our union.

The lens I look at companies through is: Who is endeavoring to do the right thing? Who is endeavoring to not just proclaim their humanity but to translate that proclamation into practices and leadership behavior?

So my lens is: Who's for real? Those companies are for real if they get the world they are living in.

I spent some time in Los Angeles, so I tend to look at society through the lens of movies. If we take morality and ethics out of it for a second, let's look at it through the lens of ideas.

[Milton Friedman](#) said "the only responsibility that a corporation has is shareholder return"—so we focus on profits. Classical economists tell us that man is purely rational, so it's not an accident that a head of sales is just going to use carrots and sticks in a compensation plan to motivate or coerce the behavior of a sales force. Bosses said, "Just do it."

I think that the one movie that really struck a chord in me is [The Godfather](#). Remember the famous scene when the [Tessio](#) character is about to be carted off to be murdered for the attempted murder of [Michael Corleone](#)? Think of the idea that came from that scene. On his way to being murdered, he had the temerity to stop and say, "Please tell Michael I always liked him. It's not personal. It's just business."

ART KLEINER: "Just business, nothing personal."

DOV SEIDMAN: I went to funerals growing up, and I heard that he was a jerk at work but a loving husband and a caring father and a ruthless negotiator. If we can create an amoral space where it's "just business," or it's "just politics," or in a football locker room, say at Penn State, it's "just football." If we can create this space, then it is

rational in this space to say: "Greed is good—that's a rational strategy;" "Just do it;" "My way or the highway;" and have a zero-sum approach.

But if we start to realize what the moral philosopher [David Hume](#) warned us about several hundred years ago, that the moral imagination diminishes with distance—if there is no distance, we can't take our morality and park it over there; we need to reawaken it because we all live in a crowded theater where we don't get to do what we can or can't do. We have to do what we should do.

I think that we are going from an amoral world, where we scaled institutions based on amoral ideas of rationality and let's build corporations that are more machine-like, to a world where we are not just connected or interconnected but we are ethically and morally interdependent, where every day we see examples of how we are rising and falling together, where one banker can lose \$2 billion for his bank trading at his desk and wipe out bonuses for all of his colleagues, where one [vegetable vendor](#) in Tunisia can spark a [revolution](#) towards freedom [throughout the Middle East](#).

We have never lived in a time where we have democratized to the individual the power to be a source for good or the opposite, evil. The individual is so powerful that today I am sitting with CEOs of some of the companies you are mentioning.

Art, you know what one of them said to me? He said, "Dov, I'd like you to help me with a unique problem. I've been thinking that it took them 17 days to get rid of [Mubarak](#), and he had a military. What if my consumers or employees want to toss me out of here? How should I lead? Should I rethink how we operate this company?"

CEOs never used to ask these questions, which totally have morality at their core in terms of getting the right answer.

ART KLEINER: Do you see leaders of nonprofits and academic leaders and government leaders being on the line in the same way?

DOV SEIDMAN: Absolutely. Leadership is about influencing and getting other people to do things, in its simplest terms. If you run an institution or you want to get votes in politics, in my work, after many years, I came to the view that there are only three ways to do it.

You can think that power is a zero-sum commodity, and I am going to have more of it relative to you, and with that leverage I can coerce you, I can establish a command-and-control relationship over you. Then, in this rational world, we decided, let's use carrots instead of sticks.

So we started to motivate people. Coercion and motivation happen to people. In the 19th and 20th centuries, when the behaviors we wanted from people were quasi-robotic, repetitive behaviors—show up every Tuesday, Wednesday, and Thursday and do the same thing over and over again—if you give me enough carrots and sticks, I can get someone to behave that way when the goal is productivity, speed, and efficiency.

But we live in a knowledge economy, where we are asking for creativity. We are asking people from different cultures to collaborate. Imagine telling two people, "Go in a room and don't come out until you collaborate"; or, "You, go in there and don't come out until you have a great idea." We have never asked for so much humanity from people.

The only way to get these deeply human behaviors, such as resiliency, innovation, collaboration, ideas, and knowledge, is to inspire them. So I think we are going from coercion and motivation to an era where, as leaders, we can only inspire people.

The key to that puzzle is the first two letters in the word inspire are "in." What's in people? To inspire someone is to connect with them in what's in them—their values, their beliefs, a sense of purpose that is worthy of their dedication, and a mission worthy of their commitment.

I think what we are seeing today is leadership going on a journey from being command-and-control to connect-and-collaborate, from inspecting for trust to giving it away, and moving away from discussing success—"If we do A, B, and C, we'll make this much money and be successful"—and moving toward significance: "If we make a difference for our consumers, our people, and the world, success will find us."

I think that we are in the era of behaviors, but those behaviors that can only be inspired.

ART KLEINER: Why now?

DOV SEIDMAN: Why now?

ART KLEINER: Let's say leaders' behavior, as all of our behaviors, are in fact changing for the better. Why is that happening?

DOV SEIDMAN: Virtue has been and always will be its own reward. I think we live in a time where it has become more practical, if not fashionable, to be principled. You can't manage a reputation; you have to earn it one behavior at a time, because it precedes you on Google before you show up anywhere. There are all these practical reasons to do the right thing.

What worries me is that when people discover that it is practical to be principled, they start to be [Machiavellian](#) about being principled—meaning "I'll say 'I'm sorry' because people won't sue me." Then you get sued because the lack of authenticity shines through.

But if I had to give you the number one practical reason as to why now—we grew up at a time where we had a boom-and-bust cycle every 10 to 20 years. If I know that I am going to have a bust and it is going to be one year of pain, then it's like I'm in a storm and I am going to bring down the sales and I'll be resilient and I'll batten down the hatches and I will be in survival mode, because then I am going to enjoy 10 years of prosperity.

If I knew that I was going to have a crisis every 10 to 20 years, I don't really have the incentive to change fundamentally. You know, you sue a few people, a few people declare bankruptcy, you live through a little regulation like [Sarbanes-Oxley](#), and then we're back to growth and prosperity.

Now, CEOs have a one-year budget and by April there's a [Greek bond crisis](#), then there's a [tsunami](#), then there's a [Gulf oil spill](#), then there's this and then there's that. If you have a crisis every 10 weeks or every 10 days, you finally have an incentive to do the following: Before we were resilient for a year and innovative for 10. Now we need to be resilient and innovative simultaneously.

The only thing ever invented that does double duty, that can socialize and control against crisis and unwanted consequences and simultaneously propel us towards good and advantage, is values. They do double duty. Instead of having a compliance department through rules tell you what you can and can't do and having somebody else tell you what you ought to do, values tell you what you ought to do simultaneously. So you get a bulwark against crisis and a propellant towards growth.

I think the number one practical reason is that the world has been reshaped. If you knew that you were sailing and a storm would be persistent, you would always be in stormy waters, you would learn to sail with the sails up.

ART KLEINER: So companies which embody values, where everything that people do is socialized towards being enlightened, goodhearted, conscious of the consequences for everybody involved, not just the shareholders but the customers; trying to make great stuff for great customers and have great relations with great employees and be great neighbors—companies which embody that are actually doing better. Say a little bit more about that.

DOV SEIDMAN: We've measured that. One of the biggest challenges in life and in business is we love to keep score. We manage what we measure.

Art, if somebody came to you and said, "I need \$10,000, I'm in crisis," you wouldn't say to them, "How about \$8,000?" I know politicians these days are betting for \$10,000 like it's nothing. But if someone said, "I need \$10,000," you wouldn't say, "How about \$8,000?" You would say, "How are you living your life and how can I help you get ahead?"

We know that interpersonal dynamics are about how. But anytime we try to do something at scale, we go from "how" to "how much." I mentioned before "how much market share, how much revenue."

In business, there is an adage that "you manage what you measure." But what you measure is a window into what we value and our values. The only thing that we use to measure is a "how much" measure from the 19th and 20th centuries, even though we are in an interdependent "how" world.

So what we have done recently in our work is we have invented what we call "how metrics"—literally, the ability to measure not how much resource but how resourceful.

Think of what happened to [Netflix](#). They were measuring how much, as in how many subscribers. They felt that they were so powerful because they were adding subscribers by the dozens every other second, and they felt that they were so powerful, that they could pass a price increase. And 800,000 subscribers bolted in 48 hours, because they were not able to measure how deeply they were connected to them; i.e., how loyal.

ART KLEINER: They came back, though, didn't they?

DOV SEIDMAN: Not yet. But they came back after they apologized and after they told the marketplace that they learned a lesson. You know, there are second chances in this. People can go away from you fast and they can come back to you fast.

But what we have tried to do recently is look at the forces that shape the behavior of organizations and their people. In our work, we basically came across two types of organizations.

One is what we called "informed acquiescence." They are very rational. They are about command-and-control. People are informed in terms of what is expected of them. They are about success. Functional, lots of departments, and rigid hierarchies.

ART KLEINER: They are fair and open but they are rigid.

DOV SEIDMAN: Fair and open, rigid. We know these organizations.

The other organization is what we call self-governing. They are rooted in values. The leadership model is connect-and-collaborate. They are much more about trust than just checks and balances as applied against rules. What really differentiates them is that they are really rooted in a purpose-inspired mission.

ART KLEINER: And they are only about 3 percent?

DOV SEIDMAN: We have done an independent study, first of 5,000 people in the U.S., and now of up to 36,000 employees in 18 countries around the world, and there is good news and bad news. The bad news is that only 3 percent of companies are self-governing.

The good news is that if you are, you have much less misconduct, and when you have misconduct, people are not scared so they come forward and talk about it so you can do better. But more importantly—remember what I said about double duty?—much higher levels of innovation, receptivity to new ideas, customer satisfaction, employee loyalty, et cetera, et cetera, reputation: all these are leading indicators of financial performance, which we have also seen that it is reported at much higher levels in a self-governing organization.

So in many ways, through an independent analysis we have proven that you can create enduring value from values if you can scale the values by embedding it into your DNA.

I don't think it's an accident that Chevron today—you talked about humanity, Art—if you haven't noticed, Chevron is "the human energy company," Cisco is "the human network," Dow is "the human element," Deere is "human flourishing," Delta Airlines is talking about how "one ounce of humanity is stronger than five tons of steel," and Allied Bank is "we speak human," and Manpower is "the human age," and I could go on. One company after another is declaring their humanity.

ART KLEINER: They have different ad agencies, too.

DOV SEIDMAN: Different ad agencies. [Laughter]

Now, marketing is always a harbinger of where the puck is going. [Wayne Gretzky](#) said "skate to the puck."

We used to assert practicality. We used to say "buy from us because of" . . . price or great products, et cetera. That's table stakes.

When the competition is reverse-engineering you not in six years but in six days, you need a great product or service just to stay in business.

The marketing agencies are saying to their companies that they work with: "Let's at least tell the world 'let's have a relationship because of who we are and what we stand for.'"

In some companies—and this could be tragic —this might stay confined to their marketing departments. Other companies are going to think deeply about the world we are in and they are going to translate that proclamation into corporate practices and leadership behaviors.

I think that's the era we are in, that we have gone from connected to interdependent, to morally interdependent. We are asserting our humanity and we need to live it.

Let's watch over the next 10 years, but I am predicting that we are going to see a new type of innovation. What I mean by that is we ask human beings to create innovation, so we keep humanity constant and we say, "Show me the new product, the new service, the new pricing model." I call that human innovation.

We are going to flip that. We are going to start to see innovation in humanity. We are going to see companies trust their employees in new ways and get returns like never before, because we are going to innovate in how we lead and how we organize ourselves.

I'd love to tell you a story of what this looks like when I see this authenticity.

How many of you have flown Southwest Airlines in your lifetime?

[Show of hands]

A few of us.

It's my favorite story because I didn't read about it. It happened to me. I traveled to Las Vegas. As the plane came to the gate, the flight attendant of Southwest Airlines came to the loudspeaker and with passionate enthusiasm said: "Listen. We've done our own research at Southwest Airlines. It turns out that if, before you deplane, all you would do is cross your seatbelts one over the other, you will have good luck at the gambling tables." [Laughter]

We all laughed, as you did, and we thought it was funny. But then we did it.

Now, it turns out that there is a federal regulation that seat belts need to be crossed before the next flight can take off. So through how she related to us, she got us to help her airline comply with a federal regulation.

It also turns out that they turn their planes around six minutes faster than their nearest rival. How many minutes would it have taken her to go up and down the aisle and do it herself? Six minutes. So through how she related to us, she created an operational advantage for her company.

Now, they are promising something in the marketplace—"home on time," "fun," "no frills," and "safe." I felt a resonance with that. There was an authenticity.

But here's the rub: There is no manual or policy that commands her to tell the gambling joke when you land in Las Vegas, and she is not paid extra for doing that. She works in a culture where she had the space to innovate in her own behavior.

I think that [Herb Kelleher](#), the founder, years ago said, "I am not in charge. In other words, I am not going to command my people. I am going to affirm that they are in charge and create this environment where people can unleash themselves and really bring their best."

I think that is the crisis we are living through. We talk about a jobs crisis. I think we have a careers crisis. Seven out of ten employees today are not engaged on the job; and two out of those ten are actively disengaged, meaning they are subverting their company. So instead of seven out of ten people running to work and creating jobs through their innovation and extra effort, creating jobs for their brothers and sisters and cousins, we have created environments where people are playing in the shade, they are barely alert to the opportunities to contribute more fully.

Until we start to create organizations that inspire people, we are going to have not just a jobs crisis, we're going to have a careers crisis, where people do not feel like they are building an enduring life and legacy that matters.

Questions

QUESTION: My name is Dana Costache. I am originally from Romania.

Do you think that the United States could be able to put together sort of a moral [Washington Consensus](#) that could go and be cascaded into the morally needy countries? Not that the Washington Consensus has been a huge success, but sort of in that summary of principles that we can cascade, to countries like those in Eastern Europe for example?

DOV SEIDMAN: Could it happen? Yes.

My sense is that in this globally interdependent world that we are in, I don't think any one country is going to be the purveyor of morality for others.

I think what we are going to start to see—I talk about two types of values. There are situational values, where every marketplace or company creates rules and policies to regulate the situation. That's where you see the proliferation of rules. I call that situational values.

We saw that situational values didn't get us anywhere. Situationally, if I can sell you a mortgage because I will never see you again, I will do it because I can, especially if that mortgage gets packaged with a thousand others and gets sent halfway across the world to be part of some big sovereign fund.

The more interdependent the world gets and the more the behavior of any one person can affect others, the more, I think, we are going to shift over to what I call sustainable values. Sustainable values are the most deeply human values. They allow for human relationships. We know what they are: trust, truth, honesty, integrity, shared responsibility.

I think that we are going to see that the world is a small place and those who scale sustainable values are going to create either marketplaces or companies where people have the confidence and trust to invest their life, their career. I think that is where it is going to go. You are going to see the innovation on who can scale sustainable

values.

I think one of the things that our research showed, by looking at 18 countries, is even though you need to respect diversity, and particularity of different countries and societies, at the level of freedom, at the level of dignity, respect, truth, it is universal.

The only way that I have been able to connect the dots between [Tahrir Square](#) and [Occupy Oakland](#) and [Occupy Wall Street](#), et cetera, is to realize that, wherever you are around the world, everybody today wants freedom from something—freedom from a dictator, from an oppressive regime; and people also want freedom from a micromanaging boss, and people want freedom from being a little cog in a corporate machine, and people want freedom from being in a box in a big corporate org chart. People want freedom.

The problem is to create "freedom from _____," that requires tearing things down, getting rid of dictators or flattening organizations. That is happening at unprecedented levels. Companies don't have 15 rungs on the ladder anymore; they are all getting flatter. We have never seen so much creation of "freedom from _____."

But the freedom that really counts, autonomy, "freedom to ____"—freedom to pursue happiness in our constitutional tradition, freedom to collaborate with people halfway across the world. "Freedom to ____" always requires moral foundations. "Freedom to ____" requires shared values, and "freedom to ____" requires principles.

I think that we sometimes celebrate too early. We create "freedom from ____" and we think we are done, but as leaders we have not yet done the hard work of creating "freedom to ____." I think that is where values come in.

QUESTION: Thank you. James Starkman.

Very interesting subject. There is no doubt in my mind that moral leadership starts at the top. You mentioned Mr. Kelleher, who was famous for that.

I was 40 years in an organization where—this goes back 55 years; I've been retired for 14 years—it happened to be Merrill Lynch at the time. There were 10 basic principles which [Charlie Merrill](#) posted in every possible place in the organization. There's no question that it infused a sense of morality and a guideline. However, as you pointed out, one rogue person can detonate everybody's bonuses, and in subsequent years that happened.

Where do you really draw the line on giving the discretion to the individuals, particularly in a regulated industry? That's just a judgment call, is it not?

DOV SEIDMAN: Of course it's a judgment call. But the system of checks and balances is failing. When someone goes offshore—think of in the Merrill example—if someone in the financial services industry goes offshore to money launder, they might have learned not to do it onshore in the compliance program. They might have taken an online compliance course about anti-money-laundering but say, "But I still want to do this so I'll go offshore."

I think what we failed to learn, tragically, in this country is the lesson from NASA. Just recently I saw, in New York, the [747 retire our space shuttle](#). That was very sad. We were going to the moon, metaphorically, as a country day after day.

In 1986, when the Challenger tragically [blew up](#), we went in to NASA and we asked questions: "What was the discretion (to use your term)? Were there checks and balances? Were their processes? What was the governance like?"

We realized that NASA was lacking. So we spent years making NASA the perfectly governed and the most compliant organization on the planet. We succeeded.

Then the Columbia [blew up](#), tragically, 17 years later. We went in to NASA and we discovered a perfect organization—except for the humanity. It was a little weak. There was too much fear, so junior engineers said, "I'm not going to come forward and describe how a little sponge, if it breaks away from the wing, can bring down the Columbia." There was also some arrogance—"Why would I come forward? Senior people don't listen to junior people."

Wherever the humanity was, if it's weak it wins, if it's strong it creates thriving. I think what we are learning is that—the philosopher [Heraclitus](#) said "character is destiny." We have always known that individuals have destiny. In this great city, when [Leona Helmsley](#) said, "Only little people pay taxes," we judged her by characterologically and she got more jail time. "Malice aforethought," "depravity of heart"—we've always felt that people act from character, their values.

But when it comes to organizations, we don't impute a character to them. We say that they are more mechanistic, they have rules and policies. The more interdependent the world is getting, the more for the first time we are saying that that organization has a character. That's why we are starting to use the word "culture."

That's what the Greg Smith letter was about, and that's what we are reading about today. We are starting to say, "These organizations have a character, their culture." We are starting to see that, whatever their character is, it is determining how they behave day-in/day-out.

The last thing I'll say that we proved in this study is that if you create a self-governing organization, the peers get in your way. When someone is about to misbehave, their colleagues are much more likely to say: "Not here, buddy. Don't spoil this for all of us." But in the other organization they go: "Behavior? That's the boss's job, it's not my job." So you create that environment.

ART KLEINER: And you see that. You see that in the self-governing organizations.

DOV SEIDMAN: Totally.

QUESTION: I'm Ruth Stevens.

Do you have data that correlates profits with these kinds of values in the corporate world?

DOV SEIDMAN: Yes.

Two things. There are two ways to get at that. One is engage the employees. Loyalty, customer satisfaction, and innovation are accepted leading indicators. Where there exist high, engaged employees—we have already proved that those organizations do better.

We also looked at one more question, the correlation between those organizations. And both the [C-suite](#) [top management] and everybody else reported observed financial performance that is superior to their competition.

We also did it separately: We looked at the C-suite, because the C-suite is acknowledged to understand how they perform financially relative to everybody else. And the financial performance was materially greater in self-governing organizations, calculated that way, than in any other.

Not to mention over the long term—we create value and then it dissipates with one scandal. Netflix's stock went down by a lot and we saw what happened to Goldman that day.

And then there is what you do not count. Think of the recruiting costs of hiring people to work for you when, before, they ran to work for you because it was a badge of honor. You were at Thanksgiving dinner bragging that you work at this company, and today they are having a tougher time recruiting. There are all those costs and the transaction costs.

QUESTION: With all due respect, I am going to express a skeptical point of view. There is one word that I haven't heard mentioned. I've heard "morality," I've heard "ethics," I've heard "self-governing," but I haven't heard the word "laws" yet in this entire talk.

I was wondering how much change is actually possible, no matter how moral or ethical corporate leadership is, when meanwhile maybe non-moral, non-ethical leaders are pushing laws that are making it more and more difficult for citizens to express either "freedom from____" or "freedom to____", which I think is what gave rise to the [Occupy movement](#). I think that most of the moral or ethical leadership that is arising in the corporate world has come as a result of pressure from citizens. So I was wondering, what would be your thoughts on that?

DOV SEIDMAN: I'm a recovering lawyer. After seven years of studying moral philosophy, I did go to law school. But I never saw them as separate—liberty, justice, equality. We take moral principles and we give them legal status. It's not about law vs. morality. It's about rules vs. values, because there is morality in law.

Now, I have never worked with a company that has a rule that says, "Don't forget to breathe," because people naturally breathe. What happens is that we pass rules retrospectively. Something happens and we don't want to see that thing happen again, so we regulate it.

So the rules that we pass are as good as our memory of history. They regulate the human past. But they can't propel the future we want.

I agree with you. We have an albatross of rules inside companies and in the marketplace that we are trying to navigate in a world in which two values can inspire me to navigate infinite situations, and a thousand rules will just suffocate me.

So I think if we were starting over again on a desert island, I would say: "No rules. Law is fine—i.e., giving moral principles the status of law, that law is above man, that we don't want to be governed by monarchs and kings and micromanaging bosses and all that." So I would give morality legal status in our lives. But I would not translate morality into a rule for every situation because that's the same as scaling situational values in that way.

I think that we need to start sunsetting and getting rid of certain rules. It starts with cafeterias. You go in and there is a rule that says "Don't leave the food in the microwave." So I see people leave it on the counter. Why not just teach people respect for common spaces? We've got to get back to what—I think it was [Teddy Roosevelt](#) who said, "If from lawlessness or fickleness, from folly or self-indulgence, they refuse to govern themselves, then most assuredly in the end they will have to be governed from the outside."

So if we are not values-based, if we are not bringing self-discipline to our endeavors, we are going to see more and more regulation. Because what else can you ask of a legislature? They can't legislate morality. They can only pass laws and regulations in the form of rules. They are not allowed to say, "Here is a moral principle that you must follow in that way."

I think that is in our tradition with [Thomas Jefferson](#). Everybody thinks that he was a libertarian because he said "the government that governs least governs best"—i.e., small government. Uh-uh. He was a philosopher. He went on to say, "because people discipline themselves."

I think it's always going to be a choice. The more values-based self-discipline we have, the fewer external rules and policies and regulation we will need. If we are anemic in this area, we are going to see more and more of that, and I think right now we are way out of balance.

ART KLEINER: Dov, that raises, though, a question that doesn't get asked very much, which is: No one would dispute the value of self-discipline—at least when other people practice it. [Laughter] When somebody is not disciplined, whether that is an individual or a company or an organization, a university, right now we are seeing the consequence of an awful lot of lack of self-discipline. Nobody disputes that this has consequences. But that doesn't necessarily lead to more discipline.

I don't want to ask who's to blame, but what do we have the right to expect from an individual in a company who is transgressing just a little bit, or from a company and a society that is transgressing maybe a little bit more? How much can we really justify saying to somebody, "You need to be disciplined or you don't have the right to be here," and how do we strike that balance?

DOV SEIDMAN: I think you can reduce this to a mantra. I think that we are in the era of behavior, meaning behaviors always mattered. I just argue that it matters more than ever and in ways it never has before.

I also argue that competitive advantage has shifted to behavior. Just like one family can't copy another, one culture can't copy another. In business, if you can do something the competition can't copy, then you have an advantage. The only thing that the competition can't copy is your character, your culture.

If you want to tell the world, "We are going to win because of who we are and how we behave," and you tell your people that "this is not a 'nice to have,' this is our strategy to thrive, to be here in a hundred years," and you make it clear, then the consequences of not behaving and not being disciplined in a world in which you have made your future about behavior should be severe.

The issue is if it is just checks and balances, I don't think it is right to fire someone if they won the cat-and-mouse game, they got their boss to approve a bottle of champagne that they otherwise should not have. But if you betray trust in a system of trust, it's a bigger offense.

We have actually proved this. You can go into a company and go to two divisions. This one just pays for expenses and this one only pays for expenses after you get two signatures from two superiors. Where do you get better behavior, better compliance? Where do you think?

ART KLEINER: Without the signatures.

DOV SEIDMAN: Without the signatures. Everybody is happy. There is less bureaucracy. The managers do not have to sign off.

Now, here you do random checks. Here you check everybody because everybody is a potential cheater. Here you do random checks, but if someone is caught cheating in a random check you publicly fire them, because it is a bigger offense to betray trust in a system that is all about trust.

ART KLEINER: And you are willing to shame an individual.

DOV SEIDMAN: My view is that if someone doesn't perform, they should have all of the privacy in the world if it is about performance, but if you are betraying values, it can't be a tree that fell in the forest and no one knew about it.

If I can invoke [Aristotle](#), my favorite philosopher, one of the quotes in our company is "Excellence is not a single act but it's a habit." If you want these behaviors, you have to habituate them through what you talk about, what you celebrate, what you reward, what you pay for; not just hiring for talent and skill, but for character. Aristotle

taught us something about trust that we have completely messed up.

Can I engage the audience with my own question?

According to [Aristotle](#), who has the virtue of trust? You for being trustworthy or me for trusting you?

Raise your hand if it's you for being trustworthy. It's 50-50, everybody's got to play. Raise your hand if it's you for being trustworthy.

[Show of hands]

MULTIPLE VOICES FROM AUDIENCE: You.

DOV SEIDMAN: Me for trusting you.

So as compared to many corporate audiences, this is a very enlightened—you must have all read Aristotle's [Nicomachean Ethics](#). [Laughter]

The reason it is in me is when I trust you I am taking a risk by giving you the power to do right by me or letting me down. We have grown up inspecting for trust—Can we trust this vendor? Can we trust this supplier? Can we trust these people?—and we set up elaborate systems of trust and verify through checks and balances.

It turns out that if you give trust away—it's actually a drug. It has been shown through neuroscience that oxytocin—it was just written up again through [Paul Zak's](#) great [research](#) in *The Wall Street Journal* —that if you give trust away, oxytocin is released in the brain, and whatever makes people leery of you subsides, and they reciprocate that trust, and you create virtuous cycles of human connection. So we go looking for trust when we should give it away.

The rock band [Radiohead](#) trusted its fans to [pay](#) whatever they think the music is worth, and they made more money on that album than on the prior four albums put together. Ritz Carlton trusts its people up to \$2,000 a day to use their judgment to solve a customer problem.

Back to your questions, sir, from Merrill, let me give you an analogy.

In Indonesia right now they are fighting corruption at an unprecedented scale. You know how they are fighting it? You would think more police, more controls. They now have 10,000 [honesty cafes](#), including canteens in schools, where they are letting people take food off the shelves, and instead of going up to a cashier that can stand over you and count your money, they are allowing people to put money in a jar and make their own change. They are teaching the habits of probity and honesty early in life to deal with the problem of severest corruption, and they are not doing it with more rules and more law and controls, but they are doing it through a values-based approach at a national level.

I think that's just the world we are heading into.

QUESTION: Susan Ball.

I was just wondering, since values are so important all around the world and we are so interconnected in everything, how much conversation is there going on about this issue internationally? It's wonderful for us in corporations here in America to operate with trust or be fostering it. But if we are—it sounds like Indonesia is doing something—but if you go to Italy or you go to Ghana or something, if you aren't having conversations, are they growing in their belief in values?

DOV SEIDMAN: I think that's a great question.

When the [crisis](#) happened, there were basically two camps. There were leaders of government and company CEOs who used the following three words: "We need to reboot, we need to reset, and we need to reform." Basically, that is code for "I pretty much like the system the way it is; let's reform it, make it a little stronger, a little [Dodd-Frank](#), a little this and a little that."

And then there are those who realize that we are in a new era. [Einstein](#) said to us, "Don't use thinking from a prior era if you believe you are in a new era." Those people want to rethink, not just reform. They are prepared to rethink fundamentals—What is the nature of a company in society? How do the private and the public sectors work together better for the first time?

I am more optimistic because more people in power are prepared to rethink fundamentals. That includes saying, "Doesn't morality and ethics belong in business—not as a tax, not as a burden, but as your engine?"

I think at international conferences we are seeing the discussion of sustainability. What is sustainability? It is a moral ethic. Your relationship with a colleague is either sustainable or not, with your grandchildren and future

generations is sustainable or not. Instead of sustainability being about recycle bins over there in the corner, sustainability is an ethic. You can do anything sustainably or situationally.

The minute you use the word "sustainable," I see that as morality, because the only reason to do something in a sustainable way is if you think you have moral obligations to the present and the future. So sustainability is a proxy for people who want to go beyond creating a machine that makes money in that way.

But I'll tell you a fascinating story about where we are. I was not too long ago at an international conference. I was given the opportunity to speak to 50 CEOs of some of the largest companies in the world off the record.

To try to see where their head was at, I asked them the following question: "How many of you can grab your BlackBerry and get hold of your worldwide head of human resources and produce a list of your top 25 performers?"

They all went like this, like, "That would take me a second. We have sophisticated performance management metrics."

I said to them, "How many of you with the same alacrity and confidence can produce a list of your top 25 ethical leaders, the ones who live the company values and mentor others, who are part of your future?"

And, I kid you not, every hand went down and they looked around the room, and it was a collective epiphany.

Then I asked them the next question: "How many of you think that you—forget me—would be running a better company if your answer to the second question were the same or as good as the first?" Every hand went back up.

"And how many of you believe that the interdependent, globally interconnected, hyper-transparent world that we live in suggests that we should get an answer urgently and embed it in our institutional DNA?" Every hand went up.

Then we had had very practical conversation as to what that would look like, because they didn't like their own answer to a question that they deemed important.

That is how you have to engage. But it's a journey; it is going to take some time.

QUESTION: How do you relate this to the recent scandals in high-stress professions like the military and the secret service, in terms of what they are subjected to and what the taxpayer expects of them?

ART KLEINER: Back to shame.

DOV SEIDMAN: It's funny, you have used the word "shame" twice. It's interesting. I think there is a relationship between that.

I think the first emotion in the Bible was shame—Adam and Eve averted their eyes so as not to be ashamed. We tell children to not eat like a pig because we're saying, "Don't do something beneath how a human would behave."

I think sometimes we think that values are only about the inspiration: If you live your values, it's always a positive thing. Sometimes you live your values by invoking a value to shame someone. You say, "You're living beneath what someone with the value of integrity or responsibility would do."

I think that there are environments where shame has its place. Not humiliation—I'm against humiliation; I'm against embarrassment—but shame in terms of: "This is a value that we share, and you have behaved in a way inconsistent with that, and I am going to call you on it and hold you accountable for that, and do it in a public way so others can learn and we can continue to build our cultural muscle," I think is appropriate.

Back to your question, I react to that the way a citizen does. How we comport ourselves here or abroad is our "how." I think that it is for leaders to inspire cultures where people would think to say, "If I wouldn't do this at home I'm not going to do it abroad, especially in an interconnected world where there is no abroad."

Just like a company used to say, "Oh, I've got some risk, let's take that risk to a developing country, or let's take that risk and bury it in a joint venture and call it something else," I don't think we should take our behaviors that we wouldn't do here and do them over there. It all comes back like a boomerang.

QUESTION: Robert Levin.

I'm going to subscribe to your course on "how's matter." I'm a member of the [UN Global Compact](#), which has [10 principles](#). I'm sure you are familiar with them. It seems that they are derived from a consensus: the [Universal Declaration of Human Rights](#), the International Labor Organization, the [Rio Declaration on the Environment and Development](#), and the [United Nations Convention against Corruption](#).

What I have seen in the developing world is that they are part of a global supply chain and they don't necessarily have the culture yet to subscribe to these values and these principles and these standards that most of the members of the UN Global Compact are trying to prescribe to their supply chain.

In those negotiations between those who procure and those who supply in the developing world, there is a tension over these principles. Could you discuss whether or not your "how" course could help these supply chains function better on the level of these principles?

DOV SEIDMAN: I don't say this to name drop, sir, but I had lunch with your boss today, [Georg Kell](#). He's a great guy.

We are a signatory to the UN Global Compact because we so much believe in the notion that you can take 10 shared principles and translate that into global business.

I want to put this in context. Do you remember when the Japanese were beating the United States in business? We had a philosophical debate. They thought that you can take principles and approaches to quality management and embed them into everything.

We said, "You can't. Quality is an aesthetic. I know good quality when I see it." We all took quality seriously. We inspected for it.

They scaled it. Then, when they bought Rockefeller Center and Pebble Beach, we had enough and we said, "Quality is job one."

Then we went on a journey. We said, "It's about productivity and speed." Then we were measuring quality defects to [Six Sigma](#) infinitesimal levels and competing for [Malcolm Baldrige National Quality Awards](#).

We are now declaring integrity, principles of anticorruption, et cetera, job one. The world is a small place. You are going to see players in the world start to win because of how they are translating these principles into how they operate. When the winning happens and they are getting the most investment in them, they are getting the best people and all that, it is just going to happen fast, the way quality became something so scientific. That is where I see this going.

I actually think that the developing countries have an advantage. We have so scaled on situational values that we have more tearing down to do. If this is a better way to be, they've got less in the way. They can shift on a dime and become more values-based, if it turns out to be a better way, faster than those of us who already have albatrosses on us.

So I'm actually optimistic about some parts of the world in terms of hitting the ground running.

ART KLEINER: Please join me in thanking Dov Seidman.

[Dov Seidman](#)

[Dov Seidman](#)

Copyright © 2012 Carnegie Council for Ethics in International Affairs