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A Baldrige Process for Ethics?

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ABSTRACT: *In this paper we describe and explore a management tool called the Self-Assessment and Improvement Process (SAIP). Based upon the Caux Round Table Principles for Business – a stakeholder-based, transcultural statement of business values – the SAIP assists executives with the task of shaping their firm's conscience through an organizational self-appraisal process. This process is modeled after the self-assessment methodology pioneered by the Malcolm Baldrige National Quality Award Program.*

After briefly describing the SAIP, we address three topics. First, we examine similarities and differences between the Baldrige approach to corporate self-assessment and the self-assessment process utilized within the SAIP. Second, we report initial findings from two beta tests of the tool. These illustrate both the SAIP's ability to help organizations strengthen their commitment to ethically responsible conduct, and some of the tool's limitations. Third, we briefly analyze various dimensions of the business scandals of 2001-2002 (Enron, WorldCom, Tyco, etc.) in light of the ethical requirements articulated with the SAIP. This analysis suggests that the SAIP can help link the current concerns of stakeholders – for example, investors and the general public – to organizational practice, by providing companies with a practical way to incorporate critical lessons from these unfortunate events.

"As an organization acquires a self, a distinctive identity, it becomes an institution. This involves the taking on of values, ways of acting and believing that are deemed important for their own sake. From then on self-maintenance becomes more than bare organizational survival; it becomes a struggle to preserve the uniqueness of the group in the face of new problems and altered circumstances."

– Philip Selznick, *Leadership in Administration*[1]

Introduction: Preventing the Collapse of Towers

For Americans, everything seemed to change in the fall of 2001. Why? In part at least, because our country was living in illusion, not unlike the prisoners in Plato's *Allegory of the Cave*. We were shocked on September 11 to discover that there were realities in our world far different from the shadows cast on our walls. Realities that threatened not only *individual lives* – but our entire *way of life*.

The Enron/Arthur Andersen scandal, which we can date from October and November of 2001, *also* revealed that we Americans were living in an illusion, only this time an illusion related to shadowy financial reporting – misrepresentation to concerned parties (employees, shareholders, etc.) of the realities on which their financial security was based.

The collapse of the financial towers of Enron and Andersen is parallel to the collapse of the World Trade Center towers – both revealed our vulnerability in the face of certain kinds of fanaticism. And both called forth from American public institutions an aggressive response. In the case of 9/11, it was Afghanistan and eventually Iraq. In the case of Enron and Andersen (and WorldCom and Tyco and Adelphia and many others), it was the *Sarbanes-Oxley Act of 2002* and the US Department of Justice.

Many have remarked about the limitations of law when it comes to effecting changes in corporate cultures. Laws can change behavior by adjusting incentives and sanctions for those covered by them, but laws have a difficult time reaching basic ethical values – what we might call corporate *consciences*.

Why? Because the essence of corporate conscience is *not* in the end a matter of external *compliance*; it is a matter of internal self-assessment and improvement. It is a matter of what we as persons and corporations as organizations *stand for*.

Discussing the collapse of Enron, Warren Bennis, Professor of Management at the University of Southern California, wrote in the New York Times that

> Mr. Lay's failing is not simply his myopia or cupidity or incompetence. It is his inability to create a company culture open to reality, one that does not discourage managers from delivering bad news. No organization can be honest with the public if it is not honest with itself.[2]

There are three key imperatives for leaders who would avoid Mr. Lay's legacy and create or maintain an organizational conscience: (i) orienting, (ii) institutionalizing, and (iii) sustaining ethical values.[3] These imperatives deal with placing and maintaining moral considerations in a position of authority alongside considerations of profitability and competitive strategy in the corporate mindset.

Orienting is about guiding the group toward a shared vision and a shared set of values to achieve it. The objective is to discern the dominant ethical values of the company and to subject them to critical scrutiny. Then a decision is made either to maintain those values or to adjust them as the company moves forward.

Once corporate leadership has clarified the direction it wants to take, the process of *institutionalizing* becomes paramount. How can the company's shared ethical values be made part of the operating consciousness of the company? How can they gain the attention and the allegiance of middle management and other employees? **(a)**

Sustaining ethical values has to do with passing on the spirit of this effort to future leaders of the organization and to the social system as a whole.

While these imperatives fall within the purview of company leaders, they are of direct concern to all members of the firm. Leaders who successfully address these tasks engender an organizational culture that supports and propagates ethical conduct. Such a culture promotes the moral flourishing of individual employees as they pursue their professional vocations – for example, enabling engineers to act with both *technical proficiency* and *moral integrity*.

Perhaps the most difficult of these three imperatives is the second. As most engineers can appreciate, *institutionalizing* an ideal, or rendering it *operational*, calls for a thorough understanding of current practices, along with the ability to articulate and measure the degree to which current practices fall short of aspirations.

Ethics as a Business Imperative

Why should corporate leaders concern themselves with institutionalizing corporate conscience? Certainly the scandals at Enron and Andersen have heightened awareness of the need for ethical business conduct. At a minimum, they have led to a clearer recognition of the concrete misfortunes unethical behavior can bring. Not the least of these misfortunes is a tarnished corporate reputation, which can impair a company's long-term sustainability to the detriment of all its stakeholders. A number of studies suggest the vital role corporate reputation plays in the eyes of customers and investors. *The Millennium Poll on Corporate Social Responsibility* – a 1999 survey conducted with 25,000 individuals in 23 countries – revealed that one in five consumers had either rewarded or punished companies in the previous year based on their perceived social performance.[4] A 2001 study by the public relations firm Hill and Knowlton found that nearly 80% of Americans consider reputation when buying a company's product.[5] The Hill and Knowlton study also showed that more than 70% of investors consider reputation when purchasing stocks. The *2002 PricewaterhouseCoopers Sustainability Survey Report* noted that

> [t]he mantra in today's business world is honesty in accounting, a natural and appropriate response to the scandals at Enron, WorldCom, and a growing list of top tier U.S. companies. Tomorrow, however, we will be expected to go a giant step further – creating corporations that are sustainable, as well as accountable…[C]ompanies that fail to become sustainable – that ignore the risks associated with ethics, governance, and the "triple bottom line" of economic, environmental, and social issues – are courting disaster. In today's world of immense and instant market reaction, an action or inaction that undermines the integrity, ethics, or reputation of a company can lead to immediate and dire financial consequences.[6]

The results of the *2002 Sustainability Survey* indicate that senior executives are beginning to recognize the connection between ethical behavior and corporate viability.

Ninety percent of those surveyed indicated that their company had adopted "sustainable practices" – defined as a "business approach to create long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental, and social developments" – in order to enhance corporate reputation. Seventy-five percent indicated that they had done so as a way of developing a competitive advantage. Customer demand, revenue growth, shareholder demand, and access to capital also figured prominently in responses (see **Exhibit 1**).

Studies such as these support the conviction that institutionalizing corporate conscience is increasingly a mandatory task for senior leaders. A failure to integrate ethical values into decisions and actions taken at all levels of an organization potentially puts the entire enterprise at risk, jeopardizing relationships with stakeholders whose cooperation is required for long-term business success.

From Aspirations to Operational Assessments and Improvements

The Caux Round Table *Principles for Business* were officially launched in July 1994. They emerged from discussions among Japanese, European, and American executives, and were fashioned in part from a document called the *Minnesota Principles*.**(b)** The *Caux Principles* articulate a comprehensive set of ethical norms that could be embraced by a business operating internationally in diverse cultural environments. For this reason, the framers of the *Caux Principles* had to formulate them so that both Eastern and Western mindsets could find them intelligible and acceptable.

The *Caux Principles* rest upon two basic ethical ideals – human dignity and the Japanese concept of *kyosei*. The former values each person as an end and implies that one's worth can never can be reduced to his or her utility as a means to someone else's purpose. The ideal of *kyosei* was defined by Ryuzaburo Kaku, the late chairman of Canon, Inc., as "living and working together for the good of all."[7] *Kyosei* is a concept that tempers individual, organizational, and even national self-interest with concern for more embracing "common goods."[8]

The *Caux Principles* express these two ideals in a format that progresses toward greater specificity. The document's *Preamble* establishes the vital need for corporate conscience in the modern business world. Then follow seven *General Principles* which clarify how the values of human dignity and *kyosei* inform business practice within a global context. The third and final section of the *Caux Principles* utilizes a stakeholder framework to supplement the general norms with more specific guidelines. These *Stakeholder Principles* specify how the ideals of human dignity and *kyosei* engage a company's relationships with customers, employees, investors, suppliers, competitors, and communities.

The *Caux Principles* help define the phrase "principled business leadership." Their progressive articulation continues with the *Self-Assessment and Improvement Process* (SAIP), which facilitates a more direct assessment of the fit between the *Principles* and a company's operations (see **Figure 1**).**(c)** The SAIP enables managers to identify behavior inconsistent with the *Principles*, detect current and emerging corporate responsibility concerns, and launch targeted improvement initiatives. It equips senior executives to address the growing expectation of responsible business conduct through a confidential, systematic self-appraisal.

Applying the SAIP is a multi-stage process, involving data collection, scoring, feedback, and action. The process is company-led and company-controlled. It also is company-confidential, at least during the early stages of its application. There is extensive process documentation to accompany the SAIP, and the tool may be applied to corporations either *in toto* or in part (e.g., certain divisions or business units).**(d)**

The SAIP is structured around the *Caux Principles.* A company's performance against each of the seven *General Principles* is evaluated from seven distinct perspectives: How well the firm has fulfilled the fundamental duties that flow from a principle, and how well it has realized the aspirations articulated by that principle in its relations with six stakeholder groups. The result is a 7-by-7 matrix of assessment criteria (see **Figure 2**).

To illustrate the use of the SAIP, let us consider a company's self-assessment regarding the general principle "Business Behavior" and a specific stakeholder group, owners and investors. To perform this appraisal, the company must reflect upon the assessment criterion contained in cell 3.4, which addresses the challenge of developing trust with shareholders through truthfulness and transparency. Criterion 3.4 is shown in **Exhibit 2,** together with some of the specific questions ("benchmarks") that amplify and elaborate it. For example, the benchmarks require the company to consider its established policies and practices for responding to shareholder inquiries, the way it addresses the issue of revealing foreseeable material risks, and the process it uses to ensure that auditors render an independent judgment on its financial statements. In short, criterion 3.4 and its benchmarks prompt a company to evaluate its standards for disclosures to shareholders, and the processes it employs to ensure these standards are consistently met.

The *SAIP* identifies the maximum possible score a company can receive for its performance against these interrogatories. By comparing its responses against a set of quantification guidelines, the firm can generate a score that characterizes its current performance level for each cell of the assessment matrix. By totaling the scores for all forty-nine cells, the company can generate an overall indication of its performance against the requirements of the Caux *Principles for Business.*

The scoring process highlights areas where company performance is relatively strong or weak. This information can help the organization formulate initiatives intended to improve the company's conduct. In addition, sharing this information with critical stakeholders can improve the company's credibility.

What *results* might a company hope for from the SAIP? At a minimum, it means that company performance is being evaluated against a global standard for ethical business conduct. In the process, it also serves as an assessment of compliance for US companies bound by the *Federal Sentencing Guidelines*. The SAIP helps to identify company strengths and to detect problems and emerging issues (an "early warning system"). It also clarifies improvement opportunities based on systematic, credible data.

As to *rewards*, the SAIP promises several: (a) improved management awareness and control; (b) enhanced congruence between stated values and behavior; (c) reduced risk of noncompliance; (d) improved communication and credibility with multiple stakeholders; (e) increased likelihood of positive evaluations from third-party monitoring organizations (for example, non-governmental organizations and socially responsible investment funds); (f) enhanced reputation among peer companies; and (g) improved revenues and profits.

Building on Baldrige – A Second Pillar

The authors have developed the SAIP for measuring the degree to which an organization has *institutionalized* its ethical values. We have seen that the SAIP rests upon the *Caux Round Table Principles* as a kind of pillar. But there is a second pillar of equal importance. The SAIP utilizes the concepts behind the *Malcolm Baldrige National Quality Program*. The *Program* has had a profound impact on American businesses. Its success in revolutionizing American industry led to the *Program's* extension into education and healthcare, where it is exerting a similar positive influence. The inventors of the SAIP have attempted to build on this legacy by applying the Baldrige self-assessment model within the arena of business ethics.

The Baldrige Criteria for Performance Excellence have been described as a large open-book test on business management – "Everything you've always wanted to know about business management, but didn't have time to ask." They serve as:

- a focused business excellence model;
- a realistic basis for self-assessment;
- a comprehensive communications vehicle;
- a mechanism for continual improvement; and
- a framework for learning.

Consistently applied, the Baldrige Criteria provide a model for assessing the current state of business performance and a roadmap to performance excellence.

Similarly, the SAIP can be viewed as a large open-book test on business ethics, encompassing all the corporate social responsibility questions business leaders now feel compelled to ask – a kind of *corporate* examination of conscience. The goal of the SAIP is an ethical reengineering of the corporation in the same sense that the Baldrige Criteria helped reengineer corporate performance.

Comparison of the Baldrige Model and the SAIP

Principles. Both the SAIP and the Baldrige Criteria are non-intrusive and aspirational. They focus on common *results* rather than common *procedures*. For example, the SAIP does not specify the exact methods, procedures, or processes that should be used to assure a culture of trust, as these may well depend upon business and organizational specifics. However, the SAIP and the Baldrige Program both articulate a set of foundational beliefs and behaviors that are characteristic of exemplary organizations. In the case of the SAIP, these are the Caux Round Table *Principles*; the Baldrige refers to them as *core values* (see **Exhibit 3**).

Measurement. An important feature of the SAIP is its introduction of measurement and quantification into the ethics conversation. Specifically, it quantifies the degree to which a culture of trust has been institutionalized in an organization. The scoring system, based on 1000 points, evaluates approach, deployment, and results. In the Baldrige Program, companies are similarly evaluated on a 1000-point scale. Leading Baldrige companies score approximately 700 points; no company has ever approached 1000 points. Although a data base has yet to be built, an SAIP score of 700 points might represent “best in class.” It should be noted that a score of less that 1000 points would not imply that an organization is unethical, but rather that a culture of trust has yet to be completely institutionalized throughout the organization – a possible but daunting achievement.

SAIP assessment is done by a unique consensus process. Consensus is a powerful win-win process which is somewhat difficult to understand. We learn at an early age that we get our way through the power of persuasion, with the objective of winning over our opponent. This win-lose system stresses articulation over understanding. It frequently leads to gridlock. To break the gridlock, we resort to compromise. In a compromise, neither side completely achieves its objectives and a lose-lose situation results.

The consensus process requires that all team members agree with and support the decisions made. This is critical in a field such as ethics, which has “degrees of goodness.” We would probably all agree, for example, that employers should pay a fair wage, but what constitutes a fair wage might be a subject for considerable discussion. The consensus process drives that discussion to a conclusion with which everyone can agree. Frequently, consensus decisions require some generalization in order to reach agreement. Such generalizations uncover areas where more research is needed and hence motivate further learning.

Differences. The inventors patterned the SAIP after the Baldrige assessment process in order to leverage the power of the Baldrige model. At the same time, they recognized that there are some fundamental differences between a performance excellence system and an ethics assessment. The inventors recognized three significant differences and designed the SAIP to accommodate those differences. They are:

1. *An organization’s ethics assessment is likely to be regarded as more proprietary than its performance excellence system.* All of the Baldrige Award winners have had their performance excellence systems evaluated by teams of external examiners. While the examiners themselves are pledged not to divulge any

information about the organizations they assess, the Baldrige Award winners themselves have been very generous in sharing their knowledge and practices in a public manner. Organizations may not be as willing to expose or share their ethics assessments. The SAIP scoring will largely be done internally by members of the organization. Accordingly, the inventors have tailored the scoring system to facilitate organizational learning rather than scoring precision.

2. *Ethics results are likely to be more difficult to quantify than other business results.* Any Baldrige application contains several pages of graphs showing performance levels, trends, targets and benchmarks. Earnings per share and similar business results are stated as exact numbers and are regarded as more precise than perhaps they really are. While some ethics results are quantifiable – e.g., health- and safety-related incidents – many will not be. The question then becomes, "What constitutes evidence in the SAIP?" To help resolve this problem, the inventors have accepted other kinds of data as empirical indicators of responsible conduct – for example, public recognition. Public recognition would include awards for outstanding community citizenship, positive reviews by rating agencies, and similar acknowledgments of exemplary behavior.

3. The SAIP is designed around a discrete set of principles and stakeholders, while the Baldrige process is an integrated system for business performance. In accommodating this difference, the inventors incorporated a subtle change in scoring methodology. The Baldrige assessment contains seven evaluation categories, six of which are scored on approach and deployment. Category 7 reports the results which derive from the approaches deployed in the first six

categories. By contrast, the SAIP (in its unabridged form) evaluates approach, deployment, and results for each of the 49 cells within the assessment matrix. This assures that there is actual verification of an organization's progress in institutionalizing a culture of responsible conduct and trust.

Beta Test Lessons

If the SAIP is to effectively shape and institutionalize corporate conscience, it must be easily employed by companies. To assess how well the SAIP fares against this requirement, beta tests of the tool have been initiated at two firms. The first test began in mid-2002; the second was launched in early 2003.

Both beta test companies are privately held. In both cases, the firm's participation in the beta test process was instigated by its chief executive officer, who viewed the SAIP as an opportunity to evaluate and strengthen the organization's commitment to responsible conduct. Both chief executives also have played a critical role in the tool's implementation. However, similarities between the companies end there. The two organizations participate in different sectors of the economy: One is an energy company that produces a range of refined fuels and lubricants for the domestic U.S. market, while the other is a U.S.-based firm that provides consulting services to schools, communities, and public agencies primarily located within the developing world. The energy firm recorded revenues in excess of $130 million in 2001. It employs roughly 300 individuals, with most working at a single site. The consulting operation is little more than one-quarter the size of its beta test counterpart, recording 2001 revenues of $35 million. Its 200 employees are located in 12 countries.

As of June 2003, the beta tests remained in progress. However, the results to that point led to three preliminary conclusions about the SAIP's usefulness and effectiveness. In turn, these conclusions have influenced the tool's ongoing development.

Lesson 1: Implementation of the SAIP is time- and labor-intensive. The version of the SAIP used in the beta tests contains 275 benchmarks. Both companies faced the challenge of responding to all of these benchmarks, and then scoring each individual response. For small- to medium-sized organizations, which typically face tight staffing constraints, such a task can be overwhelming. This is particularly true if the firm must simultaneously confront other challenges, for example, weathering an economic downturn, investigating a potential acquisition, or undertaking a critical, highly visible consulting engagement – actual situations encountered by our two pilot companies. The practical effect of undertaking the SAIP within such an environment was to further tax already heavily burdened employees. Consequently, both organizations were compelled to revise their original timetable for implementing the SAIP.

The SAIP's inventors discussed a streamlined version of the tool about a year prior to inaugurating the first beta test. The experiences of the two beta test companies decisively confirmed the need for such a design. Efforts to develop an abridged SAIP have led to two important products: a set of "gateway" assessment criteria, and an implementation model that recognizes a spectrum of ways to utilize the SAIP.

To understand the gateway criteria, one must recall that in the most detailed version of the SAIP each criterion is associated with an average of five to six benchmarks. The benchmarks explicate the criterion by further detailing its requirements. They inject a degree of specificity into the self-assessment process that helps guard against vague or overly general responses. But this specificity comes at a price, namely, the time that must be invested to develop and evaluate detailed replies. The gateway criteria limit the time necessary to perform the self-assessment by capturing within a single query much of the content expressed by the benchmarks. Use of the gateway criteria compels a company to consider this critical content, while reducing the number of responses it must formulate and score from 275 to 49.

Early in the SAIP's development, its inventors recognized the flexibility latent in the tool. The drafting of the gateway criteria, however, enabled them to better articulate the range of implementation options available to users of the tool. **Figure 3** illustrates three different levels or stages at which a company could engage the SAIP. These stages are distinguished by several factors, including:

- **who** is performing the assessment;
- the **criteria** employed within the assessment process;
- the **performance dimensions** that serve as the assessment's primary focus;
- the **length of time** necessary to complete the assessment;
- the expected **outcomes**.

The *Stage I* assessment represents the most rudimentary application of the SAIP. At this stage, the assessment is performed by the CEO and/or the company's board of directors. A version of the tool called the SAIP *Executive and Board Survey* is used. The *Executive and Board Survey* employs the gateway criteria. However, at this stage the self-assessment is limited to a single performance dimension: it asks executives to evaluate the *approach* taken by their company to each of the 49 criteria (see **Exhibit 4**). The *Executive and Board Survey* is designed to be completed in approximately 90 minutes. Assessors are not required to collect data as part of the *Stage I* appraisal; rather, they are asked to assign a score based on their present understanding of the firm's operations. Hence, the outcome at this level is "systematic speculation" about how the organization addresses critical ethical aspirations. Such speculation is obviously imprecise, but the process of working through the *Survey* generates greater awareness of corporate responsibility issues. In short, the *Stage I* assessment raises questions which prompt chief executives and board members to undertake a more detailed evaluation of company's practices.

Stage II employs a version of the SAIP called the *Senior Management Survey*. The requirements of the *Stage II* assessment differ from those of *Stage I* in four ways. First, more perspectives are engaged in *Stage II*: As suggested by its name, the *Senior Management Survey* is designed to be completed by the organization's chief operating officer and his or her leadership team. Ideally, this would take place in a working session of four to eight hours. Second, while the gateway criteria are utilized in *Stage II*, a second performance dimension is introduced. That is, the assessors must consider not only the *approach* the company takes to each criterion, but also *deployment*, that is, the extent to which the approach is utilized across the company's various divisions, functions, or subsidiaries (see **Exhibit 5**). Third, data is introduced in *Stage II* to confirm (or refute) the assessors' perceptions of the company's corporate responsibility efforts. Evidence that typically would be considered includes statements of corporate values, documented policies and practices, procedural statements, and other forms of written guidance. Fourth, the outcomes in *Stage II* move beyond enhanced awareness towards more tangible benefits. For example, the company receives an initial score for its efforts on a

1000-point scale. It also preliminarily identifies improvement opportunities that might be addressed by specific programmatic initiatives.

At *Stage III* the company encounters the complete or ("long-form") version of the SAIP. The most important difference between *Stage II* and *Stage III* is that in the latter a company utilizes the unabridged assessment criteria – including the 275 explanatory benchmarks – rather than the gateway criteria. The growth in the assessment task is accompanied by a corresponding expansion of the time required to complete the self-appraisal. Depending upon their circumstances, companies can expect to take between three and twelve months to complete the process. Furthermore, the self-assessment in *Stage III* touches upon *results* as well as *approach* and *deployment* (see **Exhibit 2**). Thus, the data the assessors must consider will extend beyond statements of policy and practice to actual outcomes of the company's corporate responsibility efforts, both qualitative and quantitative. The outcomes at *Stage III* include a score on a 1000-point scale, an identified set of improvement opportunities, and (most importantly) a detailed plan to address these opportunities through specific initiatives and actions. Thus, the ultimate result at *Stage III* is an enhancement of the company's performance, a consequence of implementing actions suggested by the SAIP's outcomes.

Lesson 2: Full implementation of the SAIP requires more than just collecting data, developing responses to benchmarks, and scoring these responses. It requires the organization's leadership to reflect on these outcomes and accurately judge their implications. Thus, dialogue and discernment play a vital role in the application of the SAIP. They catalyze the process by which outcomes from its self-assessment segment are translated into actions that advance the institutionalization of corporate conscience. At best, a failure to subject the self-assessment's outcomes to discussion and managerial judgment amounts to a missed opportunity. On this point, the comments of the chief financial officer of a beta test company are instructive. At an informal mid-course review of the company's implementation efforts, this executive observed that

> [a] lack of dialogue between senior leaders – the opportunity to compare how I would have responded to a benchmark to how others would have replied – prevented us from forming a collective understanding of the results. In short, it prevented us from drawing more and better fruit from a process in which we had invested significant time and effort.**(e)**

At worst, a failure to engage in this activity undermines the SAIP's purpose. Mechanically applying the results of self-assessment, without subjecting them to the demands of *prudence* – understood not as narrow self-interest, but as the capacity to judge the best way to achieve the moral good within a set of concrete circumstances – reduces the SAIP to a surrogate for ethical decision-making within the organization. In short, this misapplication turns the tool into a *substitute* for corporate ethical reflection. The SAIP is intended to assist, not replace, the ethical deliberation of executives. It is designed to facilitate the institutionalization of corporate conscience, not its outsourcing.

Lesson 3: The SAIP's criteria and benchmarks are useful not only for designing programmatic initiatives intended to strengthen corporate conscience, but also for shaping strategic decisions. This point was underscored by the experience of the energy company during its beta test. Immediately after completing the data collection stage of the SAIP, the firm confronted the opportunity to acquire a valuable piece of technology.

The acquisition would take place through the purchase of a second refinery. Buying the refinery would necessitate rationalizing operations across both sites, as the technology in question could not be relocated to the company's original production facility. A likely outcome of this action would be the layoff of approximately 20 to 30 employees.

However, the company's CEO challenged his staff to address this task differently – that is, "without the loss of a single job." The decision to issue this challenge resulted from his review of SAIP criteria and benchmarks relevant to the company's situation. While the SAIP does not mandate a "no-layoff policy," the chief executive's approach to this decision illustrates an important point: The assessment questions contained within the SAIP can help to illuminate ethical dimensions of the strategic decisions facing a company. By highlighting these dimensions, the criteria and benchmarks help decision makers identify the ethical implications of the various options they may be considering – implications that otherwise might have been overlooked. The recognition of these ethical dimensions offers executives a chance to better shape their decisions to honor the legitimate moral claims of the individuals and groups affected by them.

Conclusion

In this paper, we began with a reflection on the collapse of towers – both the World Trade Center towers and the Enron-Andersen towers. Restoring the damages associated with these collapses will take time and enormous effort. In the case of the Enron-Andersen restoration, the economic confidence of a whole society is at stake, and it is imperative that concrete measures be taken to assure not only legal compliance in the future, but something deeper: corporate conscience. In our opinion, the SAIP, built as it is on the pillars of the *Caux Principles* and the Baldrige Process, offers a pathway to the restoration that we seek. It represents a comprehensive, tested measure of the degree to which a company has institutionalized fundamental ethical values. Charles M. Denny, former CEO of ADC Telecommunications, Inc., summarized the matter eloquently:

> The only way a director can totally understand the behavior of a company is to shake it from top to bottom, by means of a thorough and systematic assessment like the SAIP. Performing just such an assessment is critical if directors are to assure themselves that the company for which they are responsible is performing as they believe it should.[9]

No tool, including the SAIP, can guarantee responsible corporate conduct. But it seems reasonable to suggest that honest, forthright application of the SAIP could help to uncover behavior and tendencies like those which undermined Enron, Andersen, and other companies. It would be difficult to respond with honesty and integrity to the questions in **Exhibit 2** (Cell 3.4 of the SAIP) about financial disclosure, auditing, material risk factors, and auditor objectivity while still engaging in the behaviors that gave rise to the scandals.

The pursuit of corporate conscience suggests that engineering and ethics perhaps have more to offer each other than one may have thought. The Hungarian engineer Theodore von Karman purportedly said, “Scientists discover the world that exists; engineers create the world that never was.” To which we could add, “ethicists seek the world that ought to be.” At graduation ceremonies each year, engineering students at the University of St. Thomas recite the “Obligation of the Engineer,” an adaptation of the

"Faith of the Engineer" prepared by the *Engineers' Council for Professional Development*. In part, it says:

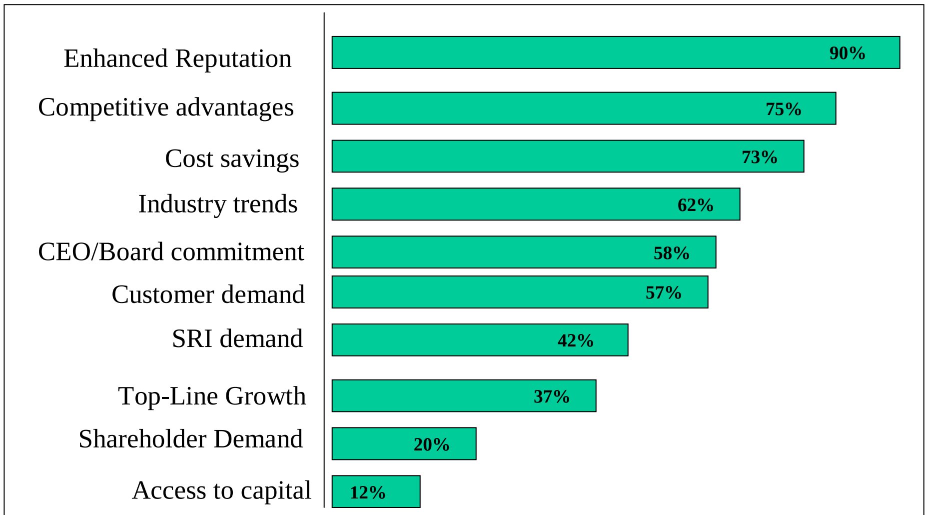
> As an engineer, I pledge to practice integrity and fair dealing, tolerance and respect, and to uphold devotion to the standards and the dignity of my profession, conscious always that my skill carries with it the obligation to serve humanity by making best use of Earth's precious wealth.

The fulfillment of this pledge depends not just on the moral character of the *individual* engineer, but also the moral climate of the *organization* wherein he or she practices. In short, a robust corporate conscience helps create an organizational context that enables engineers to employ their *technical skill* with *moral integrity*.

Conversely, if scientists seek to understand what is and ethicists seek what ought to be, then engineers – by showing how to create a world that never was – can help build a bridge from the former to the latter. We believe the *Self-Assessment and Improvement Process* is an example of such a bridge, a tool that uses the quality engineering concepts behind the Baldrige Process to foster corporate cultures supportive of behaviors which "ought to be." Should we not expect corporate executives and boards of directors to create such cultures? We think so.

Exhibit 1.

Top Ten Reasons Companies are Becoming More Socially Responsible.



Source: Price WaterhouseCoopers *2002 Sustainability Survey Report*

Figure 1. ***Progressive Articulation of the Caux Round Table Principles for Business***

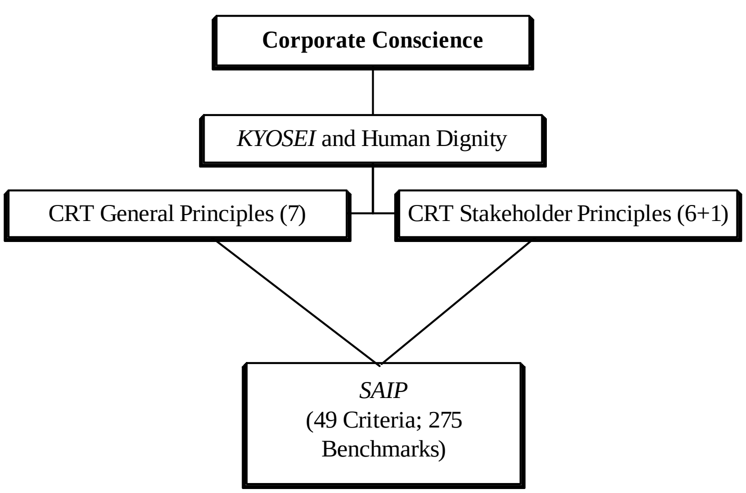


Figure 2. ***The SAIP Matrix, which translates the 7 general CRT Principles and the 7 Stakeholder Principles into 49 assessment categories, containing criteria and more detailed benchmarks*.**

Category	1 Fundamental duties	2 Customers	3 Employees	4 Owners/ operators	5 Suppliers/ partners	6 Competitors	7 Communities
1. Responsibilities of business	1.1	1.2	1.3	1.4	1.5	1.6	1.7
2. Economic and social impact of business	2.1	2.2	2.3	2.4	2.5	2.6	2.7
3. Business behavior	3.1	3.2	3.3	3.4	3.5	3.6	3.7
4. Respect for rules	4.1	4.2	4.3	4.4	4.5	4.6	4.7
5. Support for multilateral trade	5.1	5.2	5.3	5.4	5.5	5.6	5.7
6. Respect for the environment	6.1	6.2	6.3	6.4	6.5	6.6	6.7
7. Avoidance of illicit operations	7.1	7.2	7.3	7.4	7.5	7.6	7.7

Exhibit 2. ***Cell 3.4: Criterion and Selected Benchmarks for SAIP Long Form***

3.4. Owners/Investors

What level of trust has the company achieved with owners/investors? How transparent is the company to owners/investors, and how is this transparency achieved and measured?

3.4.1 What are the company's policies concerning:
- 3.4.1.1. the disclosure of information to owners/investors;
- 3.4.1.2. formal shareholder resolutions;
- 3.4.1.3. responses to inquiries, suggestions, or complaints from owners/investors…

• • •

3.4.3 How does the company address the following trust and transparency issues:
- 3.4.3.1. Preparing, auditing, and disclosing financial and operating results in accordance with high quality standards of financial reporting and auditing;
- 3.4.3.2. Disclosing major share ownership and voting rights;
- 3.4.3.3. Revealing material foreseeable risk factors…

• • •

3.4.5 How does the company perform an annual audit? Describe the applicable processes, including how an independent auditor is used to provide an external and objective assurance on the way in which financial statements have been prepared and audited?

3.4.6 What are the company's results with respect to third-party ratings of owner/investor relations?

Exhibit 3. ***Comparison of the Baldrige Core Values and the Caux Round Table Principles***

CORE VALUES BEHIND THE BALDRIGE PROCESS	CRT PRINCIPLES BEHIND THE SAIP
-Visionary leadership	-Beyond shareholders toward stakeholders*
-Customer-driven excellence	-Toward innovation, justice, and world community
-Organizational and personal learning	-Beyond the letter of the law toward a spirit of trust
-Valuing employees and partners	-Respect for rules
-Agility	-Support for multilateral trade
-Focus on the future	-Respect for the environment
-Managing for innovation	-Avoidance of illicit operations
-Management by fact	
-Social responsibility	
-Focus on results and creating value	
-Systems perspective	

*A set of principles is included that covers relations with customers, employees, owners/investors, suppliers, competitors, and communities.

Figure 3. ***Three Stages of Engagement with the SAIP: (I) The Executive and Board Survey, (II) the Senior Management Survey, and (III)*** **the Long Form SAIP. Each stage utilizes a more elaborate rendering of the criteria and benchmarks than the one preceding.**

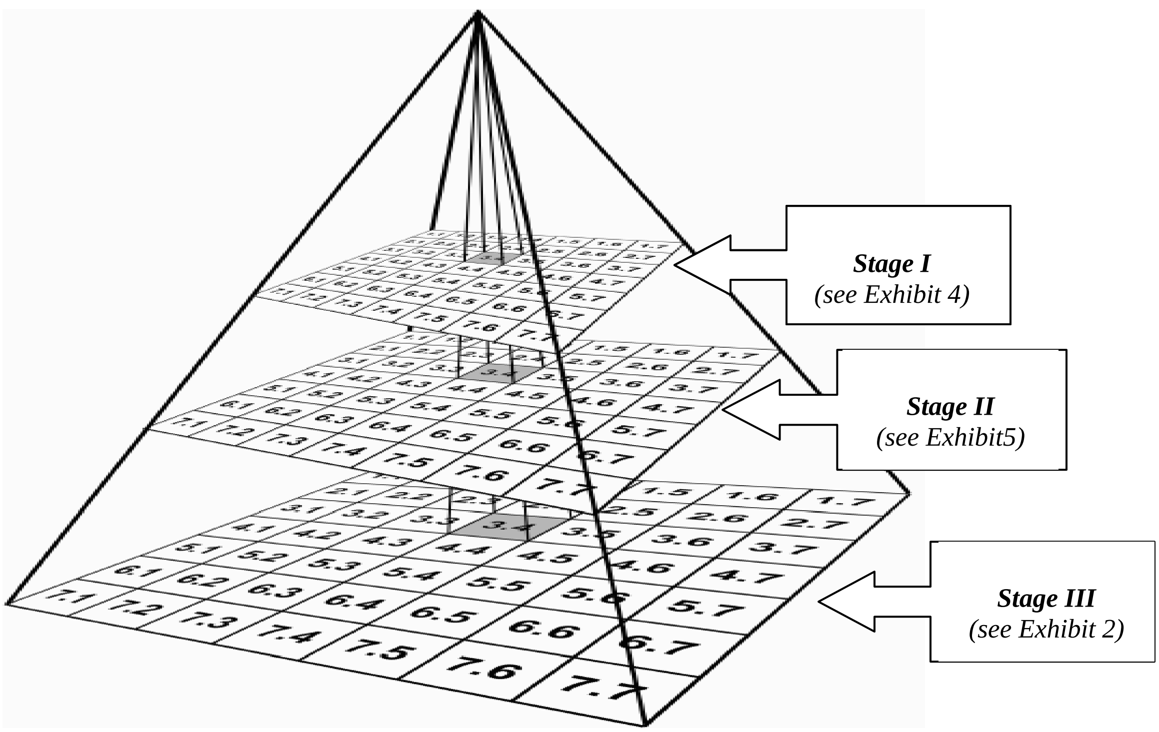


Exhibit 4. ***Cell 3.4: Executive and Board Survey Gateway Criterion (SAIP Stage I)***

3.4 Owners/Investors

How does the company elicit the trust of owners/investors (e.g., through responsible disclosures, timely and complete responses to shareholder/investor inquiries, governance policies, comprehensive and accurate external audits, etc.)?

Exhibit 5. ***Cell 3.4: Senior Management Survey Gateway Criterion (SAIP Stage II)***

3.4 Owners/Investors

How, and to what extent, does the company elicit the trust of owners/investors (e.g., through responsible disclosures, timely and complete responses to shareholder/investor inquiries, governance policies, comprehensive and accurate external audits, etc.)?

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Footnotes

(a) The answers lie in three areas: decisive *actions*, a statement of *standards* with regular *audits*, and appropriate *incentives*.

(b) The Caux Round Table *Principles for Business* may be viewed on the Caux Round Table's website (http://www.cauxroundtable.org). In language and form, the *Minnesota Principles* provided the substantial basis for the *Caux Principles*. To obtain a copy of the *Minnesota Principles*, contact the Center for Ethical Business Cultures (http://www.cebcglobal.org).

(c) The SAIP was developed by a working group of practitioners and academics, including Harry R. Halloran, American Refining Group; T. Dean Maines, University of St. Thomas; Charles M. Denny, ADC, Inc. (Retired); Kenneth E. Goodpaster, University of St. Thomas; Timothy T. Greene, The Enlightened World Foundation; Lee M. Kennedy, 3M; Clinton O. Larson, Honeywell, Inc.(Retired); and Arnold M. Weimerskirch, Honeywell, Inc. (Retired). The SAIP is currently being translated and adapted for use in Japan and Germany. The goal is to have 50 U.S. corporations utilizing the SAIP within one year after the completion of beta testing.

(e) Personal communication, March 27, 2003.