

Lecture Text

Joseph L. Badaracco, Jr.: Defining Moments*

This will probably surprise many of you: I'm going to say very little about Enron. As I understand the Enron story, if you put aside the colossal scale of the collapse, and all the disruption and harm it caused to thousands of people—and that's an enormous set of things to put aside—I don't think it is a particularly interesting story.

From what I've read in the newspapers, and I've tried to follow this very carefully and have gotten lots of inquiries from journalists, the folks at Enron and some folks at Anderson did a lot of things that were wrong. They shouldn't have done them. It was clear what was right and what was wrong. And for the vast majority of people, there is very little value in talking about right and wrong. Most people fortunately have a sense of what the difference is between the two; for those who don't, in most cases, it is often hopeless. You have to keep an eye out for them. If you find them in your organization, you must usher them toward the doorway.

I'm going to talk about a different kind of problem, a different set of problems. And these are the kinds of problems which, in the years I've spent looking at managers who take their responsibilities really seriously, are the problems that when they recount them for you, you get a sense that their stomachs are tightening a little bit, that they're breathing a little faster. It might be an experience that they learned from, something that they were glad they did once, but in many cases, the problem is something that they don't want to relive again. These problems have a simple name. I call them "right versus right" problems.

Let me give you a couple of examples. Let me start with one; since I've mentioned Enron, let's talk about the bookend to Enron. If Enron is the biggest and worst of the corporate ethic scandals, let me talk just a little bit about the famous Tylenol episode of the early 1980s. I'm sure you've all heard the standard story. In the fall—I believe it was 1982—six people in the Chicago area died of cyanide-laced Tylenol tablets. James Burke, the chairman of the company at the time, has been widely praised as a hero for, in the standard phrase, "doing the right thing."

Burke is an alumnus of Harvard Business School. We have a case study of the Tylenol episode. He's come back and talked about it. I've had the chance to interview him. And, like several of my colleagues, I've put a blunt question to him. I said, "Mr. Burke, look, what you did resurrecting the brand was phenomenal." (Think about a brand that's

* Edited for clarity

been implicated in a series of deaths: That was phenomenal.) “But surely this couldn’t have been a difficult issue about doing the right thing. You had to get that product off the shelves. Other people might have died if there was more cyanide. You would have been litigated to death if you left even more of the product out there. You had to remove it.”

Burke’s answer, surprisingly, in private conversations, is that it is largely true; the decision to pull the product was not a difficult one. But on one occasion he went on and told me a fascinating story that took place a couple of days before J&J decided to pull Tylenol.

The company had decided it was going to pull the product, and Burke decided that he ought to come down to Washington D.C. and talk to two people. One was the head of the Food and Drug Administration; his company’s principal regulator. The other was the head of the FBI.

He sat down with the two men. They said, “Look, Mr. Burke, we’ve thought about this a lot. We want you to leave the Tylenol out on the shelves.” Burke asked why.

The head of the FDA said, “We’ve got Halloween coming up. We don’t want copycats to think that they can tamper with a product and basically be the tail that wags the dog of a big company.”

And the head of the FBI, William Webster, said, “We don’t know whether this is terrorism or not, but the U.S. policy is ‘we don’t accede to terrorists.’ So could you please leave the product on the shelves?”

Burke said, still says, that at that moment he does not know what he would have done. As a corporate officer, as a human being, he wanted the product off the shelves. As a citizen, he was being asked by the man who was responsible for the safety of foods and drugs, and by the chief law enforcement officer in the United States, to leave it out there. This was an unambiguous conflict between right and right. And what Burke says is interesting. He says, “I got lucky.”

There was a knock on the door. Somebody handed William Webster a note. Webster read it. He talked with his counterpart. They said, “Mr. Burke, you can pull the Tylenol.” The note said that there had been another poisoning, this one in California, not Chicago—strychnine, not cyanide. They concluded that it wasn’t terrorism; that if it was copycatting, it was already underway. It was better to get the product off the shelves, in case any more of it was contaminated. But the key statement is Burke’s—to this day, he still doesn’t know what he would have done.

Now, that’s a grand, once-in-a-career sort of right versus right problem. There are some that happen every couple of months, and I bet many of you have counterparts to the story I’m about to tell you. You’re at home one night. I’ll dress the story up a little. There’s a knock on the door. You open it up. It’s somebody you’ve worked with

who lives a couple of towns away. He actually works for you. He comes in and says, "Look, I'm sorry to interrupt. I just wanted to talk to you for a couple of minutes."

"Sure," you say. "Come on in. Have a drink."

And what this guy says to you is he has found the house of his dreams. And he tells you that this is what he and his wife have been looking for. And they had to take a little money out of the kids' college fund, and it's going to be a really big mortgage. But, you know, since you're the best boss he's ever had and a good friend, and possibly even the best boss he could ever conceive of having, he just wanted you to be the first to know.

But you know that there are layoffs coming to the company, and you know that this individual's name is on the list. Now, I dressed this story up a little bit. But in the last ten years, I've been told four different versions of this exact same story. What's the basic issue here?

Well, you're supposed to do the right thing, right? What's the right thing? As a corporate officer, you have a duty of confidentiality, and under that duty you are not supposed to disclose the layoffs until all the ducks are lined up with HR and Legal, until it makes the most sense for the company to make the announcement. And I'm sure everybody in here can understand why. As a friend, you owe a debt to this person. If he were just about to jump off a financial precipice, wouldn't a friend reach out and pull him back?

By the way, maybe this individual has actually heard something through the grapevine and is implicitly asking you, "What's really going on? Should I go ahead with this?" And if somebody asks you a question, you're supposed to tell him the truth. So again, this is not right versus wrong. This is right versus right versus right.

And then there are the everyday examples: the soccer game, the budget, and the relative you ought to visit in the hospital. That's not right and wrong. That's right versus right. These problems actually go back a long way and they have an interesting name. They're sometimes called "dirty hands" problems. I want to tell you just briefly about the origin of that phrase.

It's the title of a play by the French existentialist philosopher, Jean-Paul Sartre, who lived and wrote in the middle of the last century. And his play, *Dirty Hands*, is set in Paris during the Second World War. Paris is occupied. There are three characters. There's an older man who has run a Communist Party cell during the occupation. There's a young man who has just joined. He's a brand new recruit, and he's full of idealism and zeal. And there is a woman in the play, so there's a romantic rivalry going on between the two men for her affections. But the real rivalry is between the two men over the older man's stewardship of this little unit.

At the climax of the play, the young man accuses the older man of selling out, of having done too many deals to keep this operation afloat. And what the older man says in response is the following: "How you cling to your purity, young man. How afraid you are to soil your hands. All right, stay pure. What good will it do you? Purity is an idea for a yogi or a monk. For someone standing on the sidelines wearing kid gloves." He goes on to say, "Well, I have dirty hands. I have plunged them in filth and blood, but what do you think? Do you think you can govern innocently?"

Do you think you govern innocently? I think that is such a powerful phrase. Do you think you can have real responsibility in life and just get served up one nice, slow underhand softball pitch, right versus wrong, one after another, and just do the right thing? The hard decisions that all of us can remember making are ones where one thing was right and another was a real obligation, and so was something else. I am really bedeviled about finding a way to do both.

These are the hard problems. And by the way, these aren't just a nice little category of interesting problems to talk about. They're managerial problems, because when they arise in an organization, people watch very closely. The people working for you will watch you very closely. Why? Because when you've got to choose between right and right, when you've got to indicate what your real priorities are, then the veils, the masks, whatever we all wear, slip a little bit. People get a little better sense of who you are, how much they can trust you, what the rules of the game are, and how they get ahead.

There is between bosses and the people working for them a close, continuous, silent, observational relationship. And in these right versus right moments, you catch some glimpses. People do watch very carefully.

Now, I want to do two things with the remainder of my time. I want to put in front of you a framework for thinking about these right versus right problems, a practically-oriented framework, and then I want to talk a little bit about the book that's in front of you and indicate how some of the advice and lessons and stories in that book help form an approach to these sorts of right versus right problems.

But let me first of all give you a framework. And by the way, this isn't Joe's framework. It's not a Harvard Business School framework. I will give credit where credit is due, because these questions of right versus right go back a long, long, long way.

My understanding of human evolution is that at some distant point there was sort of a disgusting pool of some gunk that had carbon molecules in it. And then it was hit by lightning, or a volcano overflowed into it. And then some of these molecules started replicating. And then some of these replicators got big and

complicated, and then somehow some of them developed consciousness, and eventually they became us.

There are lots of mysteries to be filled in in that story; but at some point, very, very early on there was this spark of consciousness. And people started thinking about the dilemmas of leadership and competing responsibilities. So I want to put in front of you—in the form of four questions—some of these ideas that have stood the test of time, not just centuries, but millennia. I want to make this as useful and practical as I can.

Question number one, faced with the right versus right dilemma, get out a piece of paper and for each plan of action you have for dealing with this dilemma, create a list. Make a list of everybody who's going to win and everybody who's going to lose, of all the costs, of all the benefits, of all the risks, and net, net, net, net, net. Pick the plan of action that does the most good and the least harm.

The origin of this way of thinking can be traced way back, but it was crystallized in the early part of the 1800s by a man named John Stuart Mill. It's called utilitarianism, if you want to impress people. Mill said, "The essence of responsible behavior is doing whatever promotes the greatest happiness for the greatest number of people." Mill went on to talk a little bit about happiness. He didn't mean just stuff you could count or stuff that makes you feel good right away.

He said happiness is everything that gives beauty and dignity and work and value to life. Do as much of the good stuff as you can and as little of the bad stuff, and you're doing the right thing. And I think that if you talk with most serious, practical people who have real responsibilities in the world, this sort of cost-benefit way of thinking, this look-at-the-consequences approach to ethics is their natural, intuitive way of thinking. And it's the first question. Which way of proceeding is going to get me the best net-net consequences?

Why four questions if the first question is such a good one? I hesitate to do this a little but, Rick, you're sitting right up in front here. And I come from Harvard Business School where we use the case method. I'm really not that comfortable lecturing. We use cold calls, Rick. I don't know if you can all see Rick. He's sitting up here with kind a slight, forced smile on his face. He's thinking, "Why didn't I come back a little earlier from lunch and sit in the back with some of my friends? I'm never going to do this again." Rick, do you mind telling us roughly how old you are?

RICK: I'm fifty-three.

PROFESSOR BADARACCO: Fifty-three. Do you work out?

RICK: I do.

PROFESSOR BADARACCO: You work out. And how often?

RICK: It could be a little more frequently, shall we say.

PROFESSOR BADARACCO: OK. You watch what you eat?

RICK: Definitely.

PROFESSOR BADARACCO: You watch it in the sense of regulating it, or you're just sort of observing it as it goes by?

RICK: No, I watch my diet very carefully.

PROFESSOR BADARACCO: I've been putting all that information in this little hand-held device here, Rick. It's connected to an actuarial table up at MIT that forecasts longevity. And it factors in some biotech breakthroughs as well. And it looks as if you could easily live, keep this up, another good fifty years, which would put you above a hundred. That's the good news, Rick.

The bad news is that Jerry and Doug have planned a little ceremony for you later in the afternoon, and they're going to take a photo of you for your loved ones and give you a nice medal, and then we've got a Washington D.C. police officer who's going to escort you out to a D.C. police ambulance. It's going to take you to a hospital. In that hospital, we've got seven people on life support. They're in urgent need of organ transplants.

I'm assuming you've got the complete set. I should have checked that out earlier. I apologize. And we calculated again, the greatest good for the greatest number of people, certified MIT, online, real time. They're going to live about 350 additional years. So we're going to have a nice little ceremony. I see some of your coworkers are kind of getting into this, Rick.

RICK: You have no idea.

PROFESSOR BADARACCO: Rick, why can't we do this to you?

RICK: Well, I have a wife. I have a son.

PROFESSOR BADARACCO: He says he has a wife and a son.

RICK: They sure would like to have me around a little longer.

PROFESSOR BADARACCO: They'd like him around a little longer. Well, that's an empirical question. We could check that out. These other seven, Rick, are married.

RICK: I see.

PROFESSOR BADARACCO: Big families.

RICK: You're telling me I should have had more children.

PROFESSOR BADARACCO: Well, actually, Rick, one of them is a Nobel Laureate. He's already got one Nobel Prize. He's working on a second, on infectious diseases around the world.

RICK: My son is an honor student.

PROFESSOR BADARACCO: His son is an honor student. Very good. Rick, why can't we do this to you? Anybody want to help Rick out?

PROFESSOR BADARACCO: All right, phone a friend. And the answer is exactly right. Individual rights. In fact, what you do, Rick—you get this right—is you pound on the table, “I am a human being. I have rights. You can't do this to me.” And everyone behind you would rise up like a chorus and say, “Of course you cannot do this to Rick.” The whole point about having a right is that people can't do things to you, no matter how spectacular the consequences are for everybody else.

And the second big question you've got to ask that has always been asked in these right versus right situations is which groups and which individuals in which groups have rights that we must absolutely respect, that we cannot violate, whatever we do to wrestle with this right versus right problem?

What's the origin of this idea of rights? I don't know. You can find it in the *Declaration of Independence*. If you stay here a couple of days you can go read it in the original version. You can go across any ocean, go south of this country. You can find ideas of human rights in the foundational political documents of many countries. But you can go back much further to every religious tradition that says human beings are special. They may have come out of a slime pool, but at some point, they got a divine spark. You can't just chop them up, no matter how great the consequences are.

And we in America today, people doing business in this part of the world today, live in a world where we are surrounded by rights: human rights, political rights, and economic rights, the rights of the people who invest in an organization to earn high, sustained, legal, risk-adjusted returns.

So the second big question faced with right versus right has to do with whose rights you've really got to respect. Now, I suspect there's some folks in the audience who have a mathematical background or engineering training, and you might be thinking that now we are pretty close to a really practical and analytical way of dealing with these problems. You could almost write a formula. Maximize the net-net consequences for everybody affected, subject to the constraint of not violating anybody's rights. That sounds pretty good.

Let me try another little story out on you. Again, true story, set in the Second World War, in a Greek village. It's recounted in a book by a man named John Knowles. The book is called *The Magus*.

Imagine that you were the mayor of a small Greek village. Your village has been occupied. A couple kids from your village got hold of a weapon, and they killed a couple of the soldiers in the occupying force. The commander of the occupying force is furious. He brings you, the mayor, into the town square. He rounds up a hundred women and children and puts them in the town square. He picks two kids at

random out of the crowd, puts them in front you about twenty feet away, and then he hands you a rifle. And he says, "Either you execute these two criminals for killing my soldiers, or I'm going to have my soldiers shoot into the crowd."

Now, what do you do? Assume we exclude all the sort of action/adventure options that involve swinging from ropes and concealed weapons. It's a stark choice and in fact it was a real choice. Now, in terms of consequences—one hundred people or two—you should probably fire that rifle. In terms of human rights, they're innocent. It's wrong. You can't take their life from them.

The mayor, as the story goes, picked up the rifle, aimed it at the two kids, pulled the trigger, but all he heard were clicks. There was no ammunition in the rifle. And the mayor was told by the soldier, "If you're going to kill the two kids, you've got to club them to death." True story. Horrible story. The room always goes silent at this point.

If we had more time, if we had smaller groups, and we were using a case method, I'd push you a little bit. To those of you who said, "Look, horrible choice, but I'd sacrifice two to save a hundred," I'd say, well, shouldn't you do the same thing here, even if you've got to do it in this awful way?

What's interesting is that people won't let you off that easily. Try this yourselves sometime. Try this little story out. They'll say, "Wait a minute. If you, as the mayor, as the leader of this organization, do something that despicable, that vivid"—I mean talk about dirty hands—"you're going to destroy the soul of a village, the soul of the villagers." Other people say, "If you do that, you're going to get down on the same level as your captors." One person said, "If you do this, what you're going to do is you're going to become an animal. It is subhuman."

And the mayor in the story—the story, I'm told, according the book, is real—put down the rifle. There was a line that he couldn't cross. The soldiers did fire into the crowd. They did kill a few people and injured some others, but they spared most of the lives. So the mayor was spared the full horror of what might have happened.

There's a third question, and it's implicit in the fact that the mayor put down the rifle, in these answers about becoming an animal, getting down on the same level as your captors. The origin of this question in the Western tradition goes back to Aristotle. In the East, it dates back to Confucius. For Confucius and Aristotle, ethics—doing the right thing, responsibility—were not really about finding the right rule. It wasn't really about maximizing net-net consequences or doing what people were owed because of the rights they had.

It was about character. It was about the character of individuals and the character of organizations. And basically, Aristotle's answer to what a good decision is—it's a decision made by a person with good

character, after reflection, in a good organization. And the right thing to do ought to be sort of instinctive. It ought to be spontaneous, not a matter of deliberation and calculation.

Now, when you're in an organization, when you're in a situation like the mayor, you're in a funny sort of place because you're going to make an irrevocable decision. It's part of his life, his career, and the life of this village. It is, in effect, a defining moment. And the third question, faced with one of these right versus right decisions, is what messages do I want to send about what I stand for, what we stand for, about our ideals and our principles going forward? It's writing a little bit of your personal autobiography. But you're not doing it on a word processor. You're doing it with pen and ink. You can't go back and change it. It is a defining moment. People will later talk. You won't be there to clarify. They'll say, "Well, we've had decisions like this before, and you know what so-and-so did." Those will reverberate for a long, long time. So that's the third question. It's not about consequences. It's not about rights. It's about integrity. It's about what individuals and their organizations or their units stand for.

The fourth question will surprise you a little bit because of its origins. It's Nicolo Machiavelli's question. That's right, I'm going to spend a little bit of time in this talk on ethics referring to the high priest of sleaze, and the stiletto between the ribs in the dark alley late at night, and the poisoned chalice, and all that good stuff. But let me ask you this, do you think Machiavelli's name would be known to anybody today if all he said was that you can get ahead in life by being sleazy? I don't think that that is news to anybody. I think the ancient Greeks knew that. The Israelites knew that. The Romans knew that.

Little kids think that that's how the world works, you know the little trail from the cookie jar—not the cookie jar, the Pepperidge Farm package, excuse me. They think they can get away with that kind of stuff, too. And you gradually try to teach them that isn't the case. Most of us, unfortunately, know people who, because they're smart and worked hard and had the right sponsorship and were sleazy, had nice long runs in life. It's fortunate when they get their comeuppance, but sometimes that doesn't come or it comes far too late.

So the idea that all Machiavelli preached was that sleaze will get you ahead, that doesn't have much traction. If you go to *The Prince*—and I suspect many of you can recall this from having read it in college—Machiavelli is saying something different. What he is saying is that sometimes if you've got real responsibility in an organization—he was talking about Renaissance Italian city-states—you find yourselves in circumstances where what you want to do as a human being, you may not be able to do and really take your responsibilities seriously. And then you've got to find something that will work.

And Machiavelli's enduring question is, what will work in the world as it is? That's the fourth question. What will work in the world as it is? But

I want to come back to Machiavelli, because if you leave with just that question, people can easily misinterpret it. They can think, well, what will work in the world as it is? That means the lowest common denominator, the easy way out. They're looking for the back door exit. That's not Machiavelli. If you look at *The Prince*, the people that he admired, the people he called leaders were the people who were willing to take chances. Not reckless, but prudent chances. He said, "Fortune favors the bold."

So Machiavelli's question, what will work in the world as it is, means what will work if you bring initiative and imagination and creativity, willingness to shake the tree, willingness to take prudent risks to the party? What will work then?

Now, those are four questions, one about consequences, one about rights, one about character, one about pragmatism. That's a way of getting an initial grasp of the problem. But you're managers, and the key question as you full well understand is, once we've done some analysis, once we've thought about it, once we've talked with other people about what will work best, the payoff question is, what do we do? In fact, that's part of the reason that Machiavelli's question has really stood the test of time because he focused so sharply, so acutely, so realistically on what works in the world as it is.

Let me just finish this little story of "the house of my dreams." Whenever people bring this story up, I ask them, "Well, what did you do?" And surprisingly in every case, they have done the same thing. And it's roughly what I would like to think I would do. They compromised. They bought a little time. They bent the rules a little bit.

They said something like the following: "That's wonderful. I hope everything works out great for your family." They talk a little bit about how great the house is. But...there's a but coming. And the "but" wasn't "there's a layoff and your name is on the list," because that would violate confidentiality. The "but" was, "you know, I've even been a little nervous these days about how long I'm likely to have my job here. Are you sure you want to do it?" Or "there have been layoffs at competitors. I'm a little nervous."

Pick your own favorite, devise your own. Use your own imagination and creativity. Is this heroic? I don't think it is heroic. Is it fudging a little bit? Yes, it is fudging a little bit. But with these right versus right kind of problems, you don't have the easy, do-the-right-thing, charge-the-hill alternatives.

Four people came to me with this story. I'm not even sure they resolved it as they said they did. But maybe they gave a small warning to an individual and his or her family. Maybe the family didn't go over the financial brink when the breadwinner was laid off. Is that World War II heroism? No. Is it an act of decency? Did it involve imagination? Did it involve some political savvy? Did it involve an

acute sense of how things work in the world? Did it make the world, in a small way, a better place? It clearly did.

Let me close by saying three things quickly about the whole set of ideas I've put in front of you, the four questions, and then the guidelines that are in the book. First of all, I noticed some of you taking a few notes. I hope you didn't just write down your favorite question or two. That's dangerous. You really have to use the four questions together. They balance each other.

If you think only about net-net consequences, you can run over the rights of individual human beings. If you think only about rights, especially in America today, a highly litigious country, you can easily be paralyzed. I live up in Brookline, Massachusetts. We have little parks. We have a dispute in the town now, not about whether dog owners have the right to let their dogs run free, but whether the dogs—the dogs!—have a right to run free and to socialize. We will settle this eventually, but you can be paralyzed if you only think about rights.

If you only think about your conscience, what you can live with, your sense of integrity—I'd have to ask what makes you so special that your sense of integrity triumphs over consequences and rights of other people. And if you think only about what will work in the world as it is, not balanced by the other considerations, you can end up like our friend Jeff Skilling from Enron—one of our graduates, sorry to say—and lots of other people. You need all four questions.

The second thing I want to leave you with is another facet of these four questions. They are great communication devices. I think these questions have been around so long because they capture something that is etched into our psyches. You can say to a group of people, "We had a hard problem. We thought about it. We worked on it. And we decided to do what was best for everybody affected." That has got face plausibility.

You can say, "We worked on this hard problem and we had to do the following because we have obligations to some people with rights, and we had to make good on those obligations." People will understand you. You can say, "Look, we thought hard. Given the kind of organization we are trying to be, this is what we did." People will understand you. You can look people in the eye and say, "Look, it was a tough decision, nobody's going to like it, but this was the best, the most practical choice in the world as it is." They'll understand you.

You have to fill in the details, but these are four powerful ways of communicating. They are not just analytical tools.

Let me have one final minute, because I have covered a lot of things, and what I would like to do is close in as useful and practical a way as I can. And I'd like to summarize everything I've said in the form of three little tests. You can use them for the everyday right versus right

and the big right versus right. And I think they will help put you on some of these quieter, more effective paths.

Test number one is the newspaper test. What plan is going to work best if it's going to be published on the front page of your local paper tomorrow? That's a way of picking up on the full set of consequences, especially in our media-saturated world. It's also a way of picking up on the Machiavellian question of what will work in the world as it is. The newspaper test is a very pragmatic one.

The second test is either the Native American advice to walk a mile in the other person's shoes or the golden rule, do unto others. Or another version of it is, if your kids were the people who were going to be affected by the decision, how would you want them to be treated by somebody like you making the decision? All three of those are ways of picking up on rights. Interests that other people have, real interests that you ought to pay attention to.

The final question can be quite somber. It is the obituary test or sometimes called the best friends test. What's the right way of dealing with this issue from the long term, the perspective of you looking back, people you care about, whose admiration and respect you care about, how would they have wanted you to make the decision? That's a way of picking up on what's the right thing in terms of character. Your character and the character of an organization.

Three tests. It took a minute. They are not the answer, there are no answers. Ultimately, I vote with Aristotle, it's ultimately a matter of character and judgment, but a good organization and good leadership will make it easier for people to find the right thing, or to pick the writer of the right things, or sometimes to move in the form of quiet leadership, in, roughly speaking, the right direction.

So, that said, I feel I have put in front of you maybe 10 percent of what may be helpful in wrestling with these problems. The other 90 percent is up to character, experience, hard work, and good judgment, which is something I suspect that all of you already knew. Thank you for your time, your attention. Rick, I was just kidding.