

Moral Imagination and Management Decision-Making

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Introduction

Founded in 1906, the family-owned company Malden Mills is one of the last textile mills located in Lawrence, Massachusetts. Most of the US textile industry, formerly located in the northeast of the country, has moved to the South or to Asia, where nonunionized workers and cheaper wages keep these mills competitive. However, Malden Mills, under the direction of Aaron Feuerstein, chose to stay in Lawrence, where his family had always operated this business, and the mill continued to be a unionized workplace.

During the early 1980s, Malden Mills had to lay off workers and was almost bankrupt because of fierce competition in the traditional fabric business. Feuerstein still did not close the plant. Instead, he turned to the union, to his engineers, and to his managers and asked them for ways to help the company become more efficient. Given that challenge, Malden's engineers created a new fabric, Polartec, a patented thermal polyester fleece fabric. This fabric became an almost instant success in the winter clothing market. In the meantime, with the cooperation of the union, Malden's employees were able to reduce the labor component of all fabric production to under 10% of costs. As a result, by 1995, with reduced labor costs and the expanding demand for Polartec, Malden Mills had increased its small labor force to 2,900 people in Lawrence and 3,200 people worldwide. Its sales rose to \$400 million and it became highly profitable (Narva, 1996).

Then, on December 11, 1995, the aging Lawrence factory partially burned, putting most of its workers out of jobs. Feuerstein faced a new dilemma. The insurance company would pay only about half of the \$300

million needed for rebuilding the factory. Feuerstein, at age 70, had to decide whether to go into debt to rebuild the factory.

Feuerstein decided to rebuild Malden Mills as quickly as possible. In the meantime, he continued to pay wages and benefits to his out-of-work employees. Within three months of the fire, the company was again producing Polartec, and most of the workers have jobs at the new plant.

"There was a big history of paternalism, it wasn't just the fire," said Paul Correy, president of the local union, a branch of the Union of Needletrades Industry and Textile Employees. "It brought the best out of you. He [Feuerstein] gave you security and you gave him a good day's work" (Goozner, 1996, 27).

1993: General Electric's [GE] NBC News unit issues an on-air apology to General Motors [GM] for staging a misleading simulated crash test of GM's full-sized pickup. The model pickup in question was one manufactured between 1973 and 1987 whose alleged problem is its side-saddle gas tank which, like Ford's Pinto, often explodes upon impact. Unfortunately NBC News failed to create an explosion with its simulations, so it planted an explosive inside the pictured pickup gas tank. NBC has agreed to pay GM's estimated \$1 million legal and investigation expenses. (Paré, 1994, 46)

GM alleges that there is nothing wrong with this model pickup, but currently there are over 200 law suits pending against the company for accidents allegedly caused by this model pickup's gas tank. (McCarthy and Lavin, 1993, A2)

January 1994: A study by the Project on Government Oversight, a Washington watch-dog group, found that General Electric had been involved in more instances of Pentagon fraud since 1990 than any other military contractor. Although it was the fifth-largest military contractor during that period, General Electric had 16 criminal convictions and civil judgments, compared with 4 for McDonnell Douglas, the nation's largest military contractor. (Frantz and Nasar, 1994, A1, C3)

February 1994: The Justice Department brought a criminal antitrust case against General Electric, accusing it of conspiring with an arm of the South African DeBeers diamond cartel to fix prices in the \$600 million world market for industrial diamonds. (Frantz and Nasar, 1994, A1, C3)

April 18, 1994: Kidder, Peabody & Company [then owned by GE] . . . dismissed its chief government bond trader [Joseph Jett] during the weekend after it had uncovered fraudulent trading apparently

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intended to inflate the brokerage firm's profits and the trader's 1993 bonus. As a result, Kidder said \$350 million in profits it recorded in the last year never existed. . . . Jett, a 36-year-old managing director . . . was among Kidder's most highly paid employees, earning a bonus of more than \$9 million for 1993, the firm said. (Hansell, 1994, A1; see also Paré, 1994, 40-7)¹

July 19, 1994: The *New York Times* reported that Ian Johnson, an engineer at GE, informed the FBI that GE's jet engines were not meeting safety specifications on either its commercial or its military aircraft engines. The FBI is conducting a lengthy investigation. (Frantz and Nasar, 1994, A1, C3)

Malden Mills and GE are both successful companies managed by chief executive officers (CEOs) often cited for their management and leadership skills. Yet the differences between these two companies, are not merely size, profitability, ownership structure, or diversity. What these differences are and why they matter are the topics for this book.

This book explores the role of moral imagination in managerial and corporate decision-making. My aim is to develop some fresh insights on two simple questions: Why do ordinary, decent managers engage in questionable behavior? Why do successful companies ignore the ethical dimensions of their processes, decisions, and actions? In what follows, I argue that the missing element in many instances of alleged managerial or corporate wrongdoing is a simple phenomenon: moral imagination.

Moral imagination refers to the ability to perceive that a web of competing economic relationships is, at the same time, a web of moral relationships. Developing moral imagination means becoming sensitive to ethical issues in business decision making, but it also means searching out places where people are likely to be hurt by decision making or behavior of managers. This moral imagination is a necessary first step, but because of prevailing methods of evaluating managers on bottom-line results, it is extremely challenging. It is essential, however, before anything else can happen. (Carroll, 1987, 13, reprinted with some modifications from Powers and Vogel, 1980, 40)

By "moral imagination" I include the awareness of various dimensions of a particular context as well as its operative framework and narratives. Moral imagination entails the ability to understand that context or set of activities from a number of different perspectives, the actualizing of new possibilities that are not context-dependent, and the instigation of the process of evaluating those possibilities from a moral point of view. It is the latter that distinguishes *moral* imagination. Joseph Jett was imaginative, but behaved in a morally questionable manner. Jack Welch, the CEO of GE, is enormously creative, but GE does not always judge its creative ventures from the point of view of independent moral standards. Thus,

I shall argue, moral imagination is a necessary ingredient in management decision-making. Otherwise, one often gets trapped in a particular "schema" or narrative that fails to take into account important dimensions of one's activities. This entrapment may lead to difficulties or even disasters. What distinguishes Aaron Feuerstein and Malden Mills is that, when financially challenged, he and his managers were enormously imaginative in creating a financially successful solution. At the same time, Feuerstein perceived that "the web of competing economic relationships" at Malden Mills was "a web of moral relationships." He could not disengage his business decisions from the moral standards he set for himself and for Malden Mills. Feuerstein's success is, in great measure, due to his ability to integrate these standards in his quest for new products and fiscal solvency. This, indeed, takes moral imagination.

If ethics simply involved evaluating questionable people or questionable institutions engaged in bad behavior, there would be many fewer ethical issues. In the 1960s an insurance company, Equity Funding, short of customers, made up clients, issued bogus policies to these nonexistent persons, and then resold those policies to an insurance holding company. This scheme, which went on undetected for several years, was clearly unethical and illegal as well. The only issue in that case was whether the whistleblower, James Dirks, did something unethical or illegal by selling his clients' stock in Equity Funding before reporting the scheme to the Securities Exchange Commission (SEC) (Dirks and Gross, 1974; Sturdivant, 1977, 17-31).

However, most ethical issues in business are not a result of clear-cut misbehavior. They usually involve smart managers and reputable companies that somehow, like GE, create scenarios that have untoward consequences. Let us look at some other examples. Union Carbide was and is a very fine company. Its former CEO, Warren Anderson, was a self-effacing, deeply religious person of the highest moral character. Before 1984 Union Carbide's safety record, with all their chemical plants worldwide, was exemplary. Yet despite its expertise in safety, the company built a plant in Bhopal, India, that was to defy many of Union Carbide's own safety standards and eventually leak a deadly chemical that killed over 2,500 people (Shrivastava, 1987).

The Swiss-based Nestlé Company produces some of the finest quality infant formula and is well known as expert in international marketing. Beginning in the 1950s, Nestlé took well-tested marketing strategies for infant formula to developing countries in Africa, plans that had been successful in Europe, North America, and parts of Asia. Although Nestlé was expert at manufacturing quality products and in predicting customer needs, as a result of its marketing strategies in East Africa, maternal misuse of the formula cost the lives of thousands of babies fed formula instead of being nursed (Sethi, 1994).

The *Challenges* is a collection of excellent essays that provide a history of NASA's challenges constructed out problems. In January 28, 1986, the shuttle, 1991b, 60

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The *Challenger* space shuttle was a joint project of NASA and a number of excellent subcontractors including Morton Thiokol, a corporation created by a merger of two highly reputable companies. Before the 1986 *Challenger* explosion there had been only one accident during the history of NASA's space flights, and 24 previous launches of space shuttles constructed almost identically to the *Challenger* had proceeded without problems. Despite NASA's fine safety record and Thiokol's expertise in space travel, on the 25th mission of the space shuttle program on January 28, 1986, the *Challenger* exploded within 60 seconds of liftoff (Werhane, 1991b, 605-7).

Why do these tragic events occur? The former Federal Reserve chairperson, Paul Volcker, argues that the common thread in these scenarios is "good, old-fashioned greed" (quoted in Bacon and Salwen, 1991, A10). But that explanation, while probably partially true, is not altogether satisfactory. Except for Kidder's chief bond trader Joseph Jett, the participants in these activities were hardly in need of money, and in fact GE and its subsidiaries have suffered financially as a result of these incidents. In the NBC-GE/GM case, NBC has paid GM over a million dollars in damages. And GM is still embroiled in civil suits concerning the full-sized pickup. Jett, specifically, lost a great deal by being caught. Because he banked his bonus at Kidder, Kidder kept the \$9 million it had paid him in 1993.

This set of cases raises some simple questions. How do some good managers or companies maintain consistency in their standards of behavior? Why do others engage in questionable behavior? How is it that ordinary actions of many well-intentioned managers and reputable companies are exemplary; how is that similar actions by others produce terrible consequences? Ethical issues in business, like those in personal life, are troublesome, the more so because most managers in today's open and competitive economy are smart, well-intentioned people, and the companies they manage ordinarily intentionally try to avoid egregious behavior. Why is it, then, that some become involved in questionable activities or produce harm while others do not? Is merely human fallibility the cause, or is something more at stake?

A second set of questions derives from the GE cases. Most managers and most companies are not without ethical difficulties. Indeed, it would be strange if they were, because neither people nor the companies they constitute are infallible. But the problem is not merely a one-time weakness of will, but what I would call moral amnesia, an inability to remember or learn from one's own and others' past mistakes and to transfer that knowledge when fresh challenges arise. The Joseph Jett scandal was closely preceded by a similar problem at Salomon Brothers two years earlier when its head of Treasury bond trading, Paul Mozer, was caught buying bonds in his customers' accounts without their knowledge. As a

result, in three fiscal quarters Mozer purchased more Treasury Bonds for Salomon than was legally allowed, giving Salomon control of the Treasury bond market for these three quarters (Bacon and Salwen, 1991, A10; Bartlett, 1991, 1). The Salomon Brothers events were front-page headlines for months, and its three top managers as well as Mozer were fired. Did Jett not relate those incidents to his own situation?

The Ford Pinto explosions in the 1970s are a set of cases well documented at Ford, in the courts, and by the media. Having witnessed the problems of Ford's Pinto, GM nevertheless refused to recall its full-size pickups manufactured between 1973 and 1987, pickups whose fuel tank placement presents risks similar to those experienced by Pinto owners. More recently, Ford engineers developed, tested, and eventually manufactured a utility vehicle, the Bronco II. During tests for the prototype of this car in 1982, it was discovered that the front wheel of the vehicle tended to lift off on the test track curve at speeds over 40 miles an hour. Although the tests were witnessed by Ford's legal counsel and the company's head of safety, according to reports in the *Wall Street Journal*, Ford went ahead with the manufacture of the Bronco II without design changes, this time carefully shredding the documents describing the test failures (Geyelin and Templin, 1993, A1, 6).²

These cases, and others, tell a story about business, and it is not a positive story. Most of the cases I have cited in this chapter create the impression that business is bad and that free enterprise political economies are in moral trouble. But that is not true. There are thousands of managers like Aaron Feuerstein and hundreds of companies like Malden Mills engaged in the practice of commerce in a morally exemplary manner. This is why other cases are troublesome. None of these incidents need to have occurred, nor should they have been repeated. They create a false impression that business is not a morally worthwhile enterprise, although, as I argue, this is not true. But in order to tell a positive story about business, we have to figure out how to avoid these needless negative outcomes.

There is a third set of issues I investigate in this book:

In 1986, CBS's program *60 Minutes* alleged that the automatic transmissions of the 1978-1986 models of the Audi 5000 German automobile had an accelerator defect. In at least 750 cases drivers who claimed to have put their foot on the brake said that the car accelerated. A number of deaths were attributed to this phenomenon. As a result, Audi lost over 80% of its US market share in automobile sales. (Yates, 1986, W31).

It turned out, after extensive investigation, that in each of those cases the driver had put his or her foot on the accelerator! (Zverina, 1989, F1,5)

These cases illustrate how a certain set of beliefs or a narrative becomes so dominant that we begin to believe that narrative without veri-

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ifying its truth. We organize our experience through a nexus of mental models that create a series of stories or narratives. When one narrative becomes widely accepted, it can affect one's judgment and bias the ways one deals with other facts even to the extent of excluding from consideration or even falsifying verifiable data. Potential Audi buyers simply believed the *60 Minutes* report to such an extent that even when the facts of the cases were uncovered and again revealed on a later *60 Minutes* program, Audi's market share suffered for several years afterward.

The role of narratives is important in some of the other cases I have cited as well. It is reported that Paul Mozer, the Treasury bond trader at Salomon, thought he was playing a game with the Treasury Department in which the aim was to outwit it. He thus may have created a narrative, an interpretation of reality that Treasury bond trading was a game like chess, and one explanation of his behavior is that Mozer bought into that narrative despite its fantasy (Bartlett, 1991, CI; Murray, 1991, A1). Similarly, according to at least two commentators, after numerous successful launches NASA officials began to think that the agency was invincible and that the space shuttle was a perfect, even risk-free vehicle (Feynman, 1989, 179-83; Schwartz, 1987, 56-67). The consequences of accepting these narratives in both cases is obvious.

This book begins with an exploration of a number of tempting ways to approach these complex issues of intentionality and moral accountability. If "good, old-fashioned greed" is a factor, we need to investigate the role of self-interest in managerial decision-making. It will turn out, however, that self-interests are complex matters, that people are motivated by other interests including genuine interests in other people, and that egoism, alone, is a defective mechanism for explaining the complex cases I have cited.

According to the moral development literature, a second option is to speculate that managers at Ford and Nestlé, Union Carbide and Thiokol, Jett, and perhaps even the top management at Kidder operated on the lowest level of moral development, gauging their moral judgments on what Lawrence Kohlberg and other psychologists call the preconventional level, using self-interest and personal gain as the only goal of their activities, and basing their actions simply on whether they would be caught. This analysis might be plausible to describe Jett, although there is independent evidence of his strong moral upbringing, but it hardly describes most managerial decision-making. It is true that most managers act for the self-interest of their companies, and one can safely conclude that no one wants to get caught engaged in wrongdoing. Yet evidence from a number of studies suggests that most managers operate at least on the conventional moral development level; they care a great deal about interrelationships and appeal to conventions, social

mores, and the law to guide their actions (Derry, 1989). Mozer and Jett may have been caught up in their own self-interest, but it appeared to be primarily in the form of an interest to win and to show their employers that they were good at trading.

Alternately, one could conclude that managers of companies in trouble are of weak moral character, that they do not exhibit the virtues of excellence, honor, and respect for community (Solomon, 1992). This, too, is a difficult contention to verify, and again, there is contrary evidence that people like Warren Anderson, the engineers at Thiokol and at NASA, and Nestlé's top management are basically decent, even personally virtuous people.

There is still another set of explanations of moral amnesia. Each of us, as a member of a particular society embedded in family, religious, social, political relationships and as a professional, a manager, or an employee, has, or acquires, a number of social roles. These roles are defined by the social institutions in which one finds oneself or is a member. Sometimes these roles and their concomitant responsibilities overwhelmingly shape one's worldview and strongly influence one's judgments. We find, for example, religious zealots so committed to a cause or, on a smaller scale, employees so committed to their company and its survival that they will perform activities unconscionable or even absurd to the ordinary outsider. The numerous managers at Equity Funding who participated in the activities of making up clients, creating their personal history and medical records, and who wrote policies on behalf of these mythical customers exemplify role commitment that clearly went amok. Their perceived commitment to keep Equity Funding in business overrode ordinary role expectations for a good insurance company manager, as well as customary moral considerations and legal requirements. That this behavior might be a conflict of interest did not deter Equity Funding managers from continuing their fraudulent practices. The Equity Funding case, fortunately, is an exception to management practice, but it illustrates a recurring organizational phenomenon.

Moral philosophers offer another set of reasons. Few managers have had serious training in moral philosophy, nor do many of them understand the nuances of deontology, utilitarianism, rights theory, and theories of virtue or justice. There is a set of arguments that develops the thesis that training in moral reasoning might increase moral awareness, facilitate moral decision-making, and, it is proposed, prevent many of the problems from occurring. Moral education, if complete, would prevent many of the incidents I have cited, according to this thesis. It will turn out, however, that the simple teaching and application of moral principles or rules may not alleviate all problems. It is not always lack of logic or ignorance of moral principles that causes these problems but the principles' general character that fails in specificity of application. This

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specificity has not so much to do with the particular situation at issue, per se, but rather with how the situation is perceived and framed by its protagonists. For example, during the Pinto era at Ford, according to many of its managers who were there at that time, almost no one at Ford raised an issue about the manufacture and sale of the Pinto, even when burned-out Pintos were returned to the factory (Gioia, 1991, 382-5). Similarly, according to insiders, Paul Mozer, the bond trader at Salomon, seemed, at least outwardly, to bracket moral considerations, even the question of breaking the law or being found out, except as those considerations related to the game of trading. Even after being condemned by the World Health Organization (WHO) for its marketing practices in Africa, Nestlé failed to change these procedures for some years, claiming innocence of any wrongdoing. Moreover, Ford, GE, and other companies have codes of ethics, and GE has an extensive ethics program for its managers. What is evident, then, in these cases is not weak moral development, a failure of moral character, or lack of understanding what is right or wrong, but rather a setting aside of moral considerations in the pace of business activities. So simply learning about moral reasoning or moral theory, in the abstract, by itself, does not appear to be enough unless one somehow integrates those reasoning skills in actual practice.

In this book I shall argue that most individual managers are not without moral sensibilities or values, nor are they motivated merely by greed or even self-interest, nor are most of these managers at a low level of moral development. Companies, too, are not without moral sensibilities, and many corporations such as GE have a values statement and an ethics program for managers. Nevertheless, in many situations managers have a narrow perspective on their situation and little in the way of moral imagination. As Paul Mozer and Joseph Jett illustrate, some managers confuse reality with what they want it to be. Others lack a sense of the variety of possibilities and moral consequences of their decisions, as well as the ability to imagine a wide range of possible issues, consequences, and solutions. Some individuals and institutions are trapped in the framework of history, organization, corporate culture, and tradition of which they are only at best vaguely aware, a framework that often drives their decision-making to preclude taking into account moral concerns, a framework that sometimes even allows or encourages managers to overestimate their powers and abilities. Still other managers are so focused on their roles and role responsibilities to a particular organization that they fail to consider simple norms of morality.

To account for these phenomena, I shall make a very simple point. All reality is socially structured. All experience is interpreted or constituted by a conceptual scheme and an overlapping set of incomplete mental models through which we selectively frame, order, organize, and inter-

pret the data of experience. Each of us functions through a set of mental models that are socially learned, culturally inculcated, educationally reinforced, and experientially altered. These mental models are necessarily incomplete and volatile; that is, they can be relearned and changed. They are neither universally, socially, institutionally, nor culturally the same in every individual, although they overlap and are socially, institutionally, and culturally shared or shareable with others. In some settings certain mental models function as scripts that focus our attention on a particular set of habits for dealing with that set of events in that context. In those cases these mental models serve as focusing mechanisms to bracket out other points of view or other schema. Thus, I shall argue, the kinds of mental models operative in any setting create decision-making habits that may preclude taking into account some important data. For example, as I shall argue in more detail, the fact that NASA had a long string of successes may have created a mental model of optimism that could have precluded some of its engineers from taking initially overcautious safety measures before each launch. Nestlé's belief that infant formula, in many cases, is superior to breast milk and its successes in a number of international markets framed its managerial decision-making and marketing practices so that perhaps its executives did not understand what was at issue in the company's African markets.

Moreover, all human experiences are embedded in a set of narratives, many of which are not of one's own making. We are born into a particular historical tradition, and we find ourselves part of religious, social, and cultural traditions embedded in a language. We do not choose these traditions and narratives, nor can we always escape them. Sometimes these narratives can be distorting, as the Audi and breast implant cases illustrate. Still, I shall argue further, none of us is merely defined by our background narratives. Each of us is an author of, as well as a participant in, our own history and narratives.

Therefore, even though all experience is interpreted, reality is socially constituted, and our experiences are embedded in series of narratives, I shall argue that who we are, what we do, and how we behave are not merely narrative-driven or conceptually constrained. There are at least two reasons why this is so. First, I shall argue, the self cannot be merely equated with its roles and social relationships, despite the impossibility of getting at the self apart from those roles and relationships. Thus, the existence of some narrow-minded decision-making, or the dominance of strongly differentiated role responsibilities, does not morally excuse misbehavior or the occurrence of untoward consequences that could have been avoided. Second, because mental models and narratives are incomplete and overlap, human choices are not merely context-determined. Underlying all human activity is what Donald Davidson calls a "common coordinate system" (Davidson, 1974, 5) that accounts

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One of the primary reasons for the undesirable outcomes in the cases I have cited is a paucity of moral imagination. Most managers and their institutions do not lack moral principles. Rather, they sometimes have a narrow perspective on their situation. They lack a sense of the variety of possibilities and moral consequences of their decisions and the ability to imagine a wide range of issues, consequences, and solutions. Some individuals are trapped in an organizational framework and tradition of which they are only vaguely aware, a framework that often drives their decision-making and excludes considerations of moral concerns. Managers do not always remember and thus learn from their mistakes, because they do not realize they have made mistakes. Sometimes, too, a dominant narrative creates a story that, while plausible, distorts and narrows the frame of decision-making.

A developed moral imagination gives managers means to disengage themselves from a particular situation, from its narrative, from one's roles, and from a dominating conceptual scheme. Moral imagination enables one to assess one's situation, to evaluate present and new possibilities, and to create decisions that are not parochially embedded in a restricted context or confined by a certain point of view. Without moral imagination, mistakes are reiterated.

However, one should not confuse moral imagination with practical moral reasoning. The book concludes with the thesis that moral imagination is a necessary but not a sufficient condition for creative moral managerial decision-making. Without moral imagination one can easily be drawn into a particular mindset that does not take into account other critical perspectives. On the other hand, imagination alone can create fantasies that, too, become dominating and falsifying narratives, as the Audi case illustrates. I shall therefore argue that moral reasoning is a crucial element in management decision-making, an element that nevertheless depends on moral imagination as its driving force and on moral standards as its "bottom line." Practical moral reasoning takes into account ethical theory but not abstractly. Moral reasoning begins with the particular—a specific scenario. This is because in the first instance ethics has to do with human relationships and human activities, not with abstract formal principles. It generates conclusions from that particular set of events, taking into account not merely the situation but its narrative and the set of mental models or conceptual schemes that frames these events. Moral imagination is essential to get one from a particular situation to a more disengaged perspective. At the same time, moral reasoning helps to challenge any event with stipulative principles or minimum moral standards that are not context-dependent or merely forms of role morality. Management decision-making, then, must be

contextual, imaginative, and rational. It must begin with the particular, but go beyond that, in order to avoid obvious errors of judgment.

Moral imagination and moral reasoning provide concrete managerial decision-making skills with which to avoid questionable activities, prevent unseemly consequences, and enable a manager or a company to create decision models that contribute positively to corporate and societal well-being. I shall conclude by citing a number of cases in which imaginative decision-making has enabled or even driven managers to be creative, profitable, and morally exemplary. Companies such as Levi Strauss, Johnson & Johnson, Merck, South Shore Bank, and others have, in certain circumstances, gone beyond what is expected in the processes of ordinary managerial decision-making. These managers and their companies knowingly and creatively exhibit moral imagination, an imagination "disciplined by respect for the real" (Tuan, 1989, 10). They take moral risks, and they exhibit exemplary moral leadership while continuing to be profitable. With their moral imaginations fully at work, they become, in Henry James's words, "finely aware and richly responsible" (James, 1934, 62, cited in Nussbaum, 1990, 111).

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