- Discuss the role of mission statements and codes in creating an ethical corporate culture;
- Explain how various reporting mechanisms such as ethics hotlines and ombudsman can help;
- Integrate ethics within a firm;
- Discuss the role of assessment, monitoring, and auditing of the culture and ethics program;
- Explain how culture can be enforced via governmental regulation.

DISCUSSION CASE: Goldman Sachs's "Toxic Culture"

On March 14, 2012, Greg Smith, executive director and head of the Goldman Sachs' United States equity derivatives business in Europe, the Middle East and Africa, resigned his position. While resignations occur every day, this one was unusual because it was announced in a letter to the editor published in the *New York Times*, a letter in which Smith lambasted the corporate culture and leadership of Goldman Sachs.

After 12 years at Goldman Sachs, Smith concluded that "I can honestly say that the environment now is as toxic and destructive as I have ever seen it." Smith went on to describe a corporate culture in which the interests of the clients, the people whom Goldman Sachs was supposedly serving, were systematically and continuously disregarded in favor of making ever-increasing profits for the firm. Managers were described as asking not "What is good for the client?" but "How much money did we make off the client?" Smith characterized meetings in which clients were described as "muppets," and in which employees spoke of "ripping off" clients with complex financial deals that would benefit Goldman but that seldom benefited the client.

Smith faulted senior leadership, including the present CEO and president, for the "decline of the firm's moral fiber" and for having lost a culture of integrity, trust, pride, and honesty. Instead, "The firm changed the way it thought about leadership. Leadership used to be about ideas, setting an example and doing the right thing. Today, if you make enough money for the firm (and are not currently an ax murderer) you will be promoted into a position of influence." Smith ended his letter with the hope that his resignation would be a "wake-up call" for the board of directors and warning them that they will not survive if they lose the trust of their clients. He concluded by advising them to "Weed out the morally bankrupt people, no matter how much money they make for the firm. And get the culture right again, so people want to work here for the right reasons. People who care only about making money will not sustain this firm—or the trust of its clients—for very much longer."

Not surprisingly, Goldman's CEO Lloyd C. Blankfein, and the president, Gary D. Cohn disputed Smith's claims. In a press release issued shortly after Smith's letter was published, they argued that Smith's letter failed to represent "how the vast majority of people at Goldman Sachs think about the firm" and noted that internal surveys suggest that nearly 90 percent of the company's employees feel that the firm "provides exceptional service" to clients.

DISCUSSION QUESTIONS

1. Do organizations to which you belong (e.g., a school, a club, a fraternity/sorority a sports team) have a "culture"? How did it arise? How could it be changed?
2. If the Goldman Sachs culture is as it was described by Smith, how might senior executives change it? Is it possible to "weed out the morally bankrupt people"?
3. How can corporate leaders shape the culture of their organization? Are they responsible for creating the culture?
4. How does culture impact individuals? What role does an individual employee have for accepting, or rejecting, a corporate culture?

Sources: Greg Smith, "Why I Am Leaving Goldman Sachs," *New York Times*, March 14, 2012. http://www.nytimes.com/2012/03/14/opinion/why-i-am-leaving-goldman-sachs.html (accessed August 8, 2012). Lloyd C. Blankfein and Gary D. Cohn "Goldman Sachs' Response to March 14, 2012, The New York Times Op-Ed," Press release. March 14, 2012. http://www.goldmansachs.com/media-relations/comments-and-responses/current/nyt-op-ed-response.html (accessed August 8, 2012).

4.1 INTRODUCTION

Many of the issues examined in chapter 3 concern business as a social institution and, in that sense, treat business from an external perspective. As citizens we ask and debate whether business has any social responsibility beyond the economic responsibilities of providing goods and services, jobs, and profits. This chapter examines the ethical responsibilities of business from an internal perspective. How should businesses be governed and managed in order to bring about ethical behavior and ethical decision making within the firm? What is the appropriate role for various organizational actors—boards, executives, managers—in fostering and promoting ethical behavior? Does the responsibility rest with individuals, or with institutional structures? When things go wrong, who should be accountable?

The economic model of corporate social responsibility described in chapter 3 treats social and ethical considerations as external constraints being placed on business. It is as if business requires a strong external reason for acting in ways that are socially responsible. But many other businesses take social responsibility as an inherent, if not preeminent, element of their business model. This shouldn't be surprising; after all, the individuals who work in business are no less ethical than anyone else. Assuming then that a business seeks to operate in socially responsible and ethical ways, this chapter explores strategies for creating and maintaining ethically responsible businesses.

in or tolerance of criminal activity, a violation of a prior order, or its obstruction of justice. These standards are to be judged against applicable industry standards; however, this requires that each firm benchmark against comparable companies.

In a 1997 survey of members of the Ethics Officers Association, 47 percent of ethics officers reported that the guidelines were an influential determinant of their firm's commitment to ethics,[14] and another commission study showed that the guidelines influenced 44.5 percent of these officers to enhance their existing compliance programs.[15]

REFLECTIONS ON THE CHAPTER DISCUSSION CASE

Reflect on the Greg Smith case from the point of view of the various stakeholders involved. Reflect as well on what ought to be done by the various involved parties, including government regulators, clients, even competitors. Should government regulators become involved, or should all of this be left to the workings of a competitive marketplace?

Smith himself was characterized by some commentators as a disgruntled former employee, as disloyal, as untrustworthy. Others saw him as an ethical hero, courageous, principled. Why might anyone hold these views? What is your own judgment of Smith, based on what you understand of the case? What would you need to know to reach a definitive conclusion about Smith's character?

Present employees also have a stake in this case. Some, no doubt, are dedicated and ethical professionals. Others may well be accurately described by Smith's account. To what degree should Smith have considered the innocent employees of Goldman Sachs? Could Smith have acted in any other way that might have accomplished his goals without affecting other employees?

The clients of Goldman Sachs also had a stake in Smith's revelations. Should any steps be taken by government, for example, to protect clients interest now that this information is public, or should this be left to the marketplace? Now that they have this information, should clients be free to decide whether or not to continue their relationship with Goldman Sachs?

Executive leadership also has a stake in this case. To whom does this senior leadership team owe accountability? What do the CEO and president owe to Smith, employees, clients, and the board of directors? Finally, the board itself has responsibilities here. If you were a member of the Board of Directors of Goldman Sachs, what would you want to know? What action would you expect, or demand, of your senior executives?

CHAPTER REVIEW QUESTIONS

1. To help understand an organizational culture, think about some organization to which you belong. Does your company or school or fraternity/sorority have its own culture? How would you describe it? How does it influence individual decision making and action? Would you be a different person had you attended a different school or joined a different fraternity or sorority? How would you go about changing your organization's culture?

8. Put yourself in the position of someone who is establishing an organization from the ground up. What type of leader would you want to be? How would you create that image or perception? Do you create a mission statement for the firm, a code of conduct? What process would you use to do so? Would you create an ethics and/or compliance program and how would you then integrate the mission statement and program throughout your organization? What do you anticipate might be your successes and challenges?

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