ETHICS

A Deming Inspired Management Code of Ethics

by **William A. Stimson**

Productivity dominates the concerns of today's executive management.[1,2] In a *Quality Progress* article, Stephen George goes further, saying if the field of quality is to get the attention of top management, then it must learn to integrate quality initiatives with financial performance.[3]

In 50 Words Or Less

- There is little motivation for management to commit to ethical conduct.

- Quality can be maintained by ethics oriented to customer satisfaction and employee well-being.

- An effective business code of ethics would take ethical policies out of the boardroom and apply them at the process level.

Paul Palmes and Sandford Liebesman echo this idea in another *Quality Progress* article, saying today's quality professionals are increasingly expected to assume cost effectiveness in business planning.[4] Indeed, strategies such as Six Sigma and lean have already done so.

An intense focus on productivity can and often has led to legal, moral and ethical compromises. The law can take care of itself, and morals have a religious undertone that is being thrashed out in the courts. We can, however, talk about ethics, the fragile flower that makes the workplace tolerable to human beings and the marketplace acceptable to customers. If business is to focus mainly on value adding activities, then a code of ethics becomes ever more essential.

For millennia, society defined acceptable human conduct according to rigorous standards—the *Bible*, Confucianism, the *Quran*, and the *Torah*, to name a few. These standards went far beyond proscribing criminal activity and even guided such things as parent-child relationships.

In modern industrial society, however, the trend has been toward secular guidance, which appears not sufficiently developed to assume the role. Generally, crimes are well defined, but misconduct

Philosophical Background

Humans are social creatures, banding together for company and for security. Anthropologists tell us that for thousands of years, human beings were hunters and gatherers. We roamed the earth, looking for sustenance. You might say we lived on a just-in-time inventory.

Then farming was developed. This allowed us to stay in place and gather and store inventory. We stored foodstuffs, clothing, products and tools to use as needed to level out the fat and lean times. In short, we accumulated resources.

The resources belonged to society. Perhaps one person might make shoes or another, bolts of cloth, but others would make different resources for trade with them. Still others did work that allowed producers to continue their craft. And others protected the producers from predators. Therefore, the resources belonged to everyone.

As the making and gathering of resources became large and continuous, it was necessary to manage them. The question arose: Who should best manage our resources, the government or private groups? This question is still being asked and probably always will be.

In the United States, private groups manage society's resources. The private groups are called businesses and have managers who plan and implement the strategic and tactical goals necessary to resource management. They are rewarded generously because the job is important and difficult.

Nevertheless, the resources belong to society. They are derived from the air, sea, rivers and earth, which are commonly owned and protected. One of the things I admire about Japanese culture is its recognition of the obligation business owes to society. For example, Toyota defines quality in terms of benefits to society.[1] Genichi Taguchi defines deviation from the nominal as a "loss to society."[2]

Some societies are established for specific reasons. The United States is devoted to individual liberty. The search for a balance between individual rights and society's rights often spills over into business. How does society protect its resources in this search? It must protect itself by imposing constraints, often through some form of accountability. This article is about such constraints.

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less than criminal is often neither defined nor proscribed.

For example, Kim McMurtry reports gathering evidence in American universities that somewhere between 70% and 85% of students cheat.[5] Cheating has always been with us, as has murder.

The purpose of ethical standards is to reduce the frequency of unethical behavior by reducing its acceptability. Margaret Fain and Peggy Bates offer the view that plagiarism is not taught to be wrong in the nation's high schools, which by and large have gotten out of the business of teaching right and wrong.[6] If plagiarism is not wrong, it must be right, and we arrive at staggering statistics on cheating.

High school and college graduates take their ethical view with them into industry. They find no standard there, either. Everyone relies on the law, but many transgressions are within the law. For example, in the Ford/Bridgestone/Firestone product failures, most civil suits were directed against the tire manufacturers, but R.W. Hoyer makes the case that Ford shares equal culpability because its strategic policies fail to recognize it is as much an assembler as a manufacturer and as such, is responsible for the total product—car and tires.[7]

There is no universally recognized code of business practices or business ethics. Generally, codes tend to prohibit discrimination based on race, religion or gender, because it has become the law. But many codes leave unaddressed conduct that is legal and has moral or ethical shadings that can lead to a demoralized workplace.

The Basis of an Ethics Standard

Ethics has to do with the right and wrong of human conduct. It is an intuitive concept—the courts are full of people debating the right and wrong of things. Perhaps this is why it has proven so difficult to generate a universal code. Clearly murder is wrong and is universally defined as a crime. Usually, however, we use the term "ethical behavior" to refer to conduct that is legal and avoids hurting others.

In search of an ethical basis, it seems reasonable to turn to quality, which from the beginning has been primarily concerned with providing good value to customers. The historic naiveté of quality vis-à-vis market forces enhances its credibility as

an honest broker. Yet, you won't find an off-the-shelf ethical standard there, either.

Six Sigma and lean are oriented to bottom-line results. This is good for business but does not preclude, for example, oppressive management behavior. ISO 9001, too, falls short as an ethical standard, focusing on process procedures and job training but much less on human-to-human behavior. ISO 9004 touches on ethical issues but has no contractual

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force. You cannot decertify a company from ISO 9000 or from Six Sigma for unethical but legal behavior.

The Deming View

It is possible, however, to derive a secular basis for ethical behavior from the tenets of quality, and we can start with the 14 points of W. Edwards Deming.[8] About half of them are process oriented, and about half affect human conduct.

The relevant points related to ethics are:
- Point two—Adopt a philosophy that encourages high quality and effective training and ensures effective supervision.
- Point six—Institute training.
- Point seven—Institute leadership.
- Point eight—Drive out fear.
- Point nine—Break down barriers among staff.
- Point 11—Eliminate quotas.
- Point 12—Remove barriers to pride of workmanship.

The meaning and scope of these points are expanded in Deming's own writings and elsewhere. This article will use them as the justification for a code of conduct.

Deming believed well-trained employees have a natural inclination to do their best and will do so in an encouraging environment. Tom Watson, the founder of IBM, shared this view. Peter Drucker writes of Watson, "He believed in a worker who saw his own interests as identical to those of the company. He wanted above all, a worker who used his own mind and experience to improve his job, the product, the process and the company."[9]

Deming expressed his conviction in the goodness of human toil in his 14 points. The essence of the points can be condensed in three notions: employee skill, empowerment and the absence of fear.

Skill is achieved by training and education and provides employees with pride of performance and the confidence to make decisions about their tasks. Empowerment gives them the authority to do so. Fear takes it all away.

Skill

Skill is developed through training, pure and simple. From neurosurgery to piano tuning, the more training and education received, the greater the skill level. Of course, given the same amount of

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training, some performers are better than others, and we see this demonstrated in every competition. Nevertheless, a company improves its production and service by providing adequate and suitable training to employees. Then the person's own pride of craft takes over.

Deming said experience without theory teaches nothing. Theory is provided by education and training. I once overheard an argument between two technicians, one claiming to be correct because he had 17 years' experience. The other retorted: "You don't have 17 years' experience. You have one year's experience repeated 17 times." This is another way of saying skill is developed through training.

Many companies skimp on training, and a few provide none at all, hiring a given skill level when it is needed, then letting it go when it is not. Such companies have high turnover rates and low survival rates because they cannot attract and retain skilled employees. They are unable, over the long term, to satisfy their customers.

Of course, an adequate skill level does not ensure quality, but you can't get there without it. Skill is an ethical issue because it is the basis of an employee's sense of self-worth. It therefore affects the quality of human behavior.

Empowerment

The basis of empowerment is recognizing people are usually competent in what they do. They have a valuable bottom-up view. They are experienced and have a strong vested interest in doing what they think is necessary.

Joseph M. Juran and Frank Gryna tell us the number of conformance decisions made each year is huge in most companies.[10] There is no possibility top management can become involved in the details of so many decisions. The work must be organized so employees can make these decisions themselves.

The U.S. Department of Defense used Mil-Q-9858A as a quality management standard for more than 50 years, ending its unique authority in 1994 in favor of ISO 9000. However, some things were lost in the translation. Mil-Q-9858A had a strong employee empowerment endorsement. It said, "Personnel who perform quality functions shall have sufficient, well-defined responsibility, authority and organizational freedom to identify and evaluate quality problems and to initiate, recommend or provide solutions."[11] In government lingo, "shall have" is a directive, so the statement is a declaration of empowerment.

Unfortunately, ISO 9001:1994 was less forceful in its support of employee responsibility. The words sound the same, but on close reading, we find a company may "define and document" the authority of employees "who need the organizational freedom to (initiate, recommend or provide solutions…) ."[12] ISO 9001:2000 drops the issue altogether.[13]

Why is this important? If their documented authority is weak and employees are directed to fudge the numbers, they cannot, on the basis of quality, refuse to do so. Moreover, if an auditor finds coercion to be a management tactic, what paragraph of the standard is against this tactic?

Paul Hersey and Kenneth Blanchard described the modes of employee empowerment, tracing them historically.[14] At the low end, they list the "tell" mode, in which management literally tells the employee what to do at each stage of a process. This mode was formalized by Frederick Taylor[15] and worked reasonably well in the early part of the 19th century, with a workforce of illiterate and inarticulate immigrants.

The "delegate" mode is the high end of empowerment, in which employee responsibility is delegated and the employee is responsible for quality performance.

Although most companies boast of their relationships with employees, the reality on the factory floor may be quite different. Many of us, in the heat of production schedules, have heard management demand tests be waived, data be changed or defects be allowed. As ISO 9001 now stands, the "tell" mode is acceptable if it is supported by documentation. Empowerment is an ethical issue because it establishes the authority of employees in the performance of their effort. It therefore affects the quality of human decisions.

Fear

Deming's eighth point, drive out fear, seems somewhat out of place—archaic and inappropriate to modern quality. In his great wisdom, Deming knew better. He understood fear is and continues to be a management tool. It is manifested in many ways, principally by exhortations to meet production targets and quotas or find another job.

I am reminded of the "barefoot man" threat often used in the textile industry in the 1930s: "If you can't do this job faster, there's a barefoot man out there who can and who wants your job!"[16] The modern words to this melody are, "If you can't get your numbers up, this plant's moving to Mexico!"
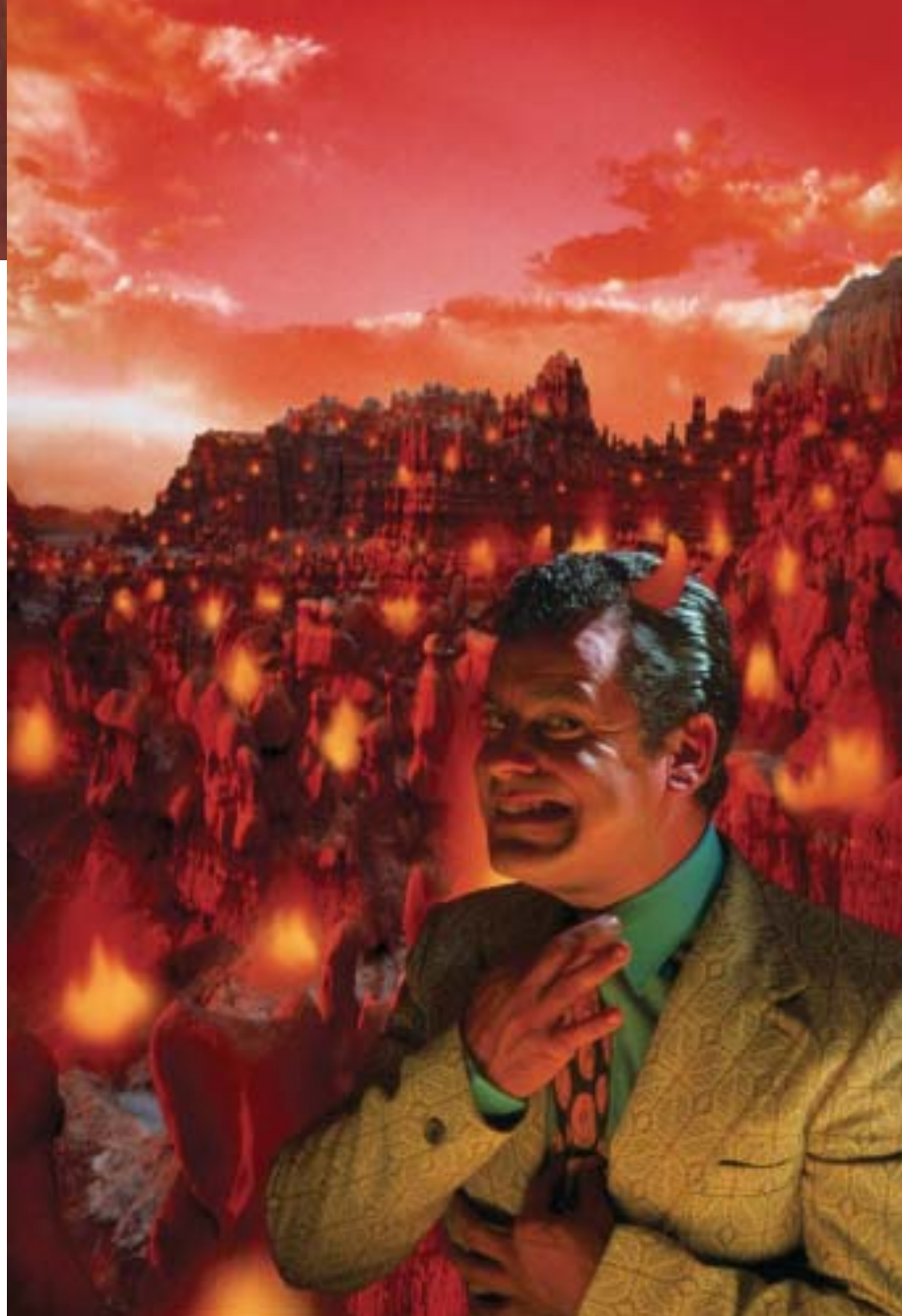
Carol Loomis describes a tone at the top at the Lucent Corp. that drove employees to make false production claims.[17] None of this was illegal, no one went to jail, but the public was misled.

Warren Bennis talks about the culture of fear at the *New York Times*, which led to the recent dismissal of two top executives.[18] It is not a happenstance thing. Says Bennis, "Organizational cultures are not like breaking news stories. They evolve slowly, imperceptibly, over years if not decades."

The causes of fear are coercion, threats, abuse and disempowerment. It all comes down to fear. Coercion is unacceptable, but where it doesn't violate the penal code, the existing standards of quality are not well designed to deal with it.

Threats and abuse are similarly passed over, as though their presence is negligible in the modern

workplace. The crippling effect of disempowerment is left to the manager to appreciate or not. But fear is an ethical issue because it is a fundamental negative motivator, adverse to human health.

In summary, the basis of a standard of ethical behavior in business is defined in three notions: skill, empowerment and absence of fear. Deming's points two and six stress the need for training to increase skill, permitting empowerment. Points seven, nine and 12 encourage sufficient empowerment of the employees, enabling them to make decisions about their jobs. Points eight and 11 relieve fear, permitting the employees to devote their efforts and imaginations to their tasks.

A Proposed Code of Ethics

A code of ethics for business management might start by saying, "Profit is our goal; integrity is our means," and follow with words to the effect that to ensure integrity, we adhere to the following standards of ethical conduct:

1. We shall identify customer expectations and use them diligently to achieve customer satisfaction.
2. We shall be honest and open with customers and keep them informed of progress and pertinent issues during periods of contract performance.
3. We assume responsibility for quality, reliability and safety in our products and services. This responsibility will not be delegated.
4. We shall inquire of the customer as to the need for traceability of parts or service during each period of contract performance. Traceability will be assumed unless we are absolved by the customer.
5. We shall inform the customer of possible conflicts of interest during a period of contract performance. We shall respect the confidentiality of customers, employees and peers.
6. We shall not discriminate against others—customers, employees or peers—on the basis of race, religion or gender.
7. We shall respect the organizational freedom of employees to verify the quality of their work and identify nonconformances. Personnel performing quality functions shall have sufficient, well-defined responsibility and authority to identify and evaluate quality problems and initiate, recommend or provide solutions. No employee will be required to produce defective work.
8. We shall ensure all reports, certifications and statements are true and complete.
9. We shall maintain a culture that encourages the ethical conduct of all employees. No employee may be harassed or abused by any other employee. No employee may retaliate or take adverse action against anyone for raising or helping to resolve an issue of integrity. Each employee is encouraged to raise issues of integrity to the level each deems necessary for resolution.

Implementing the Code

Some years ago, the U.S. Navy was concerned about the quality of ship repair in private shipyards and introduced a standard of quality management to be invoked in complex repair contracts.

But the world of low bid always ensured job scope was underestimated, and in particular, the number of persons needed to supervise the tasks was understated. In frustration, the team responsible for the standard, myself included, rewrote the standard to require at least three managers would be assigned to a ship repair job.

We got what we wished for—exactly three managers, no matter the size of the job. Whether an $8 million or $80 million project, only three persons were assigned to manage the work.

What we learned from that experience is you get what's in the contract and nothing more. Therefore, although companies may hasten to adopt a code of ethics, the only way for the customer to ensure it will be invoked on a particular job is to get it in the contract.

The best way to achieve that goal is to include the code in ISO 9001. Then, when a contract is awarded to an ISO 9001 certified company, the code comes with it. Violations of code will be violations of the contract, and the customer can seek redress in civil action.

ISO 9001 is not designed to detect cheating, coercion and dissembling but to detect the random errors made by performers of good will. Coercion takes place where management lacks good will. Covert acts that are legal but discriminate against quality through abuse, coercion, threats or disem-

powerment of employees may not be actionable even if detected by ISO 9001 auditors. But if the acts violate terms of the code invoked in a contract, they are actionable in civil law. In this way, management is held accountable to the customer.

General Benefits of the Code

Each principle of the code provides a benefit to performers and consumers. Some of the benefits are easy to see; some require a word or two to clarify them. In order, these special benefits are:

1. Meeting customer expectations.
2. Honesty.
3. Nondelegable quality.
4. Traceability, which reduces occasions for waste and fraud.
5. Respect for privacy and avoidance of conflicts of interest.
6. Antidiscrimination, which is required by law but inserted to complete the code.
7. Empowerment through organizational freedom, responsibility and authority.
8. True reports.
9. Integrity (encouragement of whistle-blowing reduces animosity and punitive action).

The principles, collectively, also provide general benefits to the marketplace.

Benefits to Management

The code of ethics would take ethical policies out of the boardroom and apply them at the process level. ISO 9001 requires a quality policy, and these policies always sound grand. Quality auditors know the proof of effective quality policy is not a grand statement but is the application of specific policies at the process level: policies on waste, measurement, inspection and test, storage and the multitude of value-adding activities throughout the company.

For example, Ford Motor Co., which was certified to QS-9000 (the automotive derivative of ISO 9001), must have had a quality policy prior to the Bridgestone/Firestone tire failure affair, but R.W. Hoyer reports its policy was ineffective at the process level in regard to customer needs.[19]

The code of ethics would reduce liability and risk of high damage awards. For example, assume a company is ISO 9001 certified, attesting to a production system under control. Suppose a plaintiff can show the company is in noncompliance with ISO 9001 and is in nonconformance with accepted measurement policies. The producer has no way of knowing whether its products meet requirements, and the plaintiff can sue for full value of purchased product.

Whistle-blowing can create a venomous atmosphere in the workplace as the workforce divides in

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two: those supporting the company and those supporting the whistle-blower. This animosity sometimes results in violence: slashed tires of management's vehicles, smashed windows of whistle-blower's homes and violence upon the persons. The code of ethics would empower employees to appeal to all levels of management, thus replacing fear with fairness.

My argument is that ethical policies affect the performance of employees; therefore, ensuring ethical management at the process level enhances process performance and benefits management in return.

Benefits to Employees

Deming talked often of pride of workmanship, believing a skilled, empowered employee would willingly manifest this pride to the benefit of employee and employer alike. Watson of IBM, believed the same. Deming and Watson understood such employees feel a sense of satisfaction and awareness of their contributions to company, family and society.

Contrast the contributors with a disgruntled

employee who fights back, embittered from frustration, disempowerment, overwork, underachievement, inadequate training and lack of recognition. The weapons of the disgruntled are deceit, benign neglect, malicious compliance and sabotage.

I recall auditing a company in which a demoralized receiving inspector assured me the company had little or no receipt inspection. This kind of response requires more than a cursory understanding of human nature on the part of the auditor and can lead to a failed audit. In another recent case, a Navy contractor quit her job, but not before she had erased mission critical data from the hard drive of her employer's computer.

There may be many reasons an employee is disgruntled, but the code of ethics would reduce the number by ensuring ethical management at the process level. This relieves employees of distracting and unnecessary burdens and allows them to focus on quality, improve their own and their organization's performance, enhance profit sharing and fulfill their professional aspirations.

Benefits to Customers

Armand Feigenbaum says quality is what the customer says it is.[20] Determining what the customer wants is one of the major requirements of ISO 9001. A company must put great effort into this determination. Yet, having done so, the customer receives nothing until a product is made or a service is provided. Therefore, process effectiveness and efficiency are critical to the producer-customer relationship.

The code of ethics would eliminate many of the factors that conflict with good employee performance. It would lay the groundwork for process effectiveness, efficiency and continual improvement. The code thus would enhance the occasions for quality, reliability, timeliness of delivery, meeting of expectations and good value.

Benefits to Society

Free societies are composed of employers, employees and consumers, and employment and consumption are a significant part of our lives. Hence, quality in all its manifestations is also a significant part of our lives.

A sense of well-being on the job and confidence in the future will color the view of the citizenry toward other institutions of society: the systems of justice, education, media, marketplace, military and government. Satisfaction and confidence in one system encourage satisfaction and confidence in all, as these institutions have a closed loop effect on our lives. I believe this is what the Japanese mean when they say quality adds value to customers and society.

The purpose of the code of ethics I propose is to create an environment in which employee performance can flourish, with resultant continuing improvement in quality, thus benefiting society.

It Works for Everyone

All responsible institutions use a code of conduct or ethics, naturally tailored to their business and quite often confidential. There is little uniformity, and customers, in general, have no idea of the underside of the business that is performing for them.

In this environment, quality may suffer amid heavy demands for production, and the customer is shortchanged, often quite legally. Equally often, the employees suffer, too, if Deming is correct in his belief employees want to do their best.

A Deming derived management code of ethics based on issues of skill, empowerment and freedom from fear that is invoked in a contract can provide great assurance to customers and management that "profit is our goal; integrity is our means."

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