



Business Ethics

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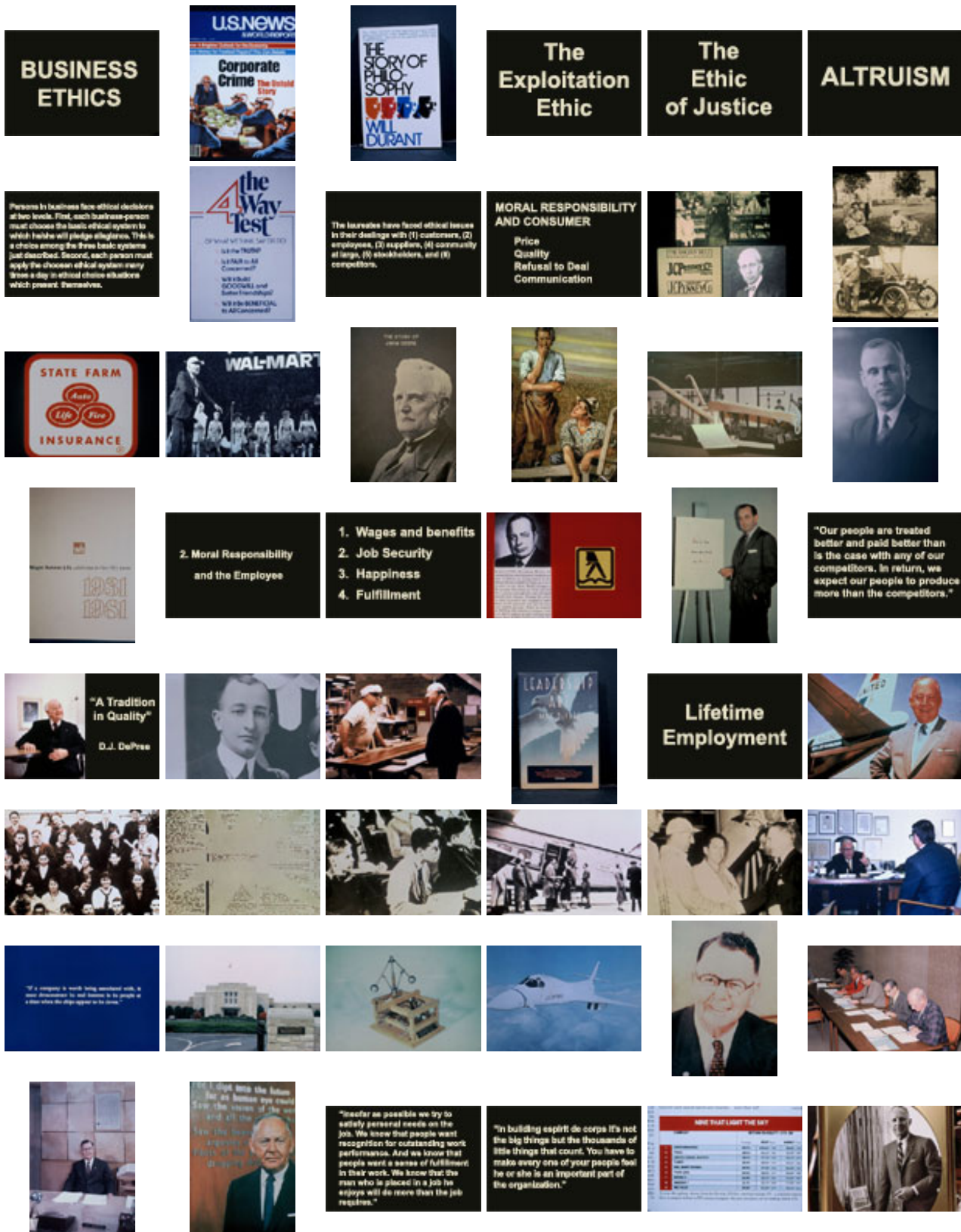
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"When you work for the Lord you find yourself raising the level of effort. Your job becomes more than a job. It becomes a calling."
— Marion Wade



Wade's Business Management Fundamentals

1. HONOR GOD	1.000
2. DEVELOP PEOPLE	1.000
3. PURSUE EXCELLENCE	1.000
4. GROW PROFITABLY	1.000
5. SERVE THE COMMUNITY	1.000
6. BE A GOOD STOCKHOLDER	1.000
7. BE A GOOD COMPETITOR	1.000
8. BE A GOOD EMPLOYEE	1.000
9. BE A GOOD CITIZEN	1.000
10. BE A GOOD PERSON	1.000

Wade's Business Management Fundamentals is a comprehensive guide to business success. It covers the basics of business management, from the importance of honoring God to the importance of being a good citizen. It is a must-read for anyone who wants to succeed in business.



Wade's Business Management Fundamentals

To Honor God in all we do
To Help Develop People
To Pursue Excellence
To Grow Profitably

Wade's Business Management Fundamentals
**WADE
HANSEN
WESSNER**

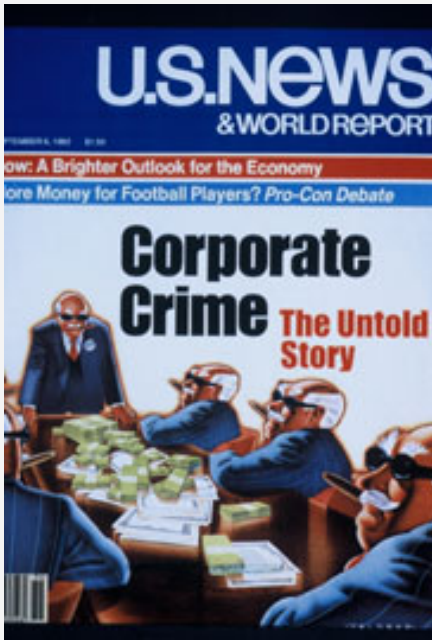
The business has faced ethical issues in their dealings with (1) customers, (2) employees, (3) suppliers, (4) community at large, (5) stockholders, and (6) competitors.



BUSINESS ETHICS

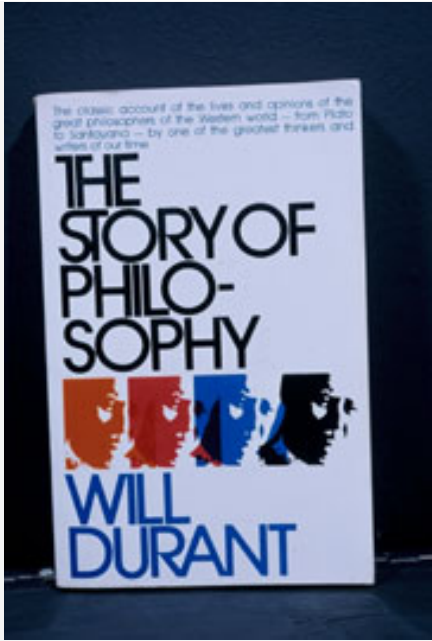
What follows is an optimistic view of ethical practice in American business as experienced in the twentieth century. The presentation is based on the lives of American National Business Hall of Fame laureates.





Someone reading the popular press might not think of business as the home of high ethical standards. Bad news about business behavior fills the pages of America's popular magazines and newspapers and spills over to radio and television. More objective scholarly studies suggest that (1) such bad behavior does occur, but (2) a very high percentage of businesspersons practice a high standard of ethics most of the time.





In order to properly evaluate business behavior, one must first possess knowledge of the ethical options. Will Durant provides a simple tool for this purpose. He suggests that all of the ethical systems developed over the history of the world can be classified under one of 3 headings - the exploitation ethic, the ethic of justice, and the ethic of altruism.



The Exploitation Ethic

The exploitation ethic is the practice of pure selfishness. Such phrases as "might makes right" and "survival of the fittest" apply to businesspersons operating in this mode.



The Ethic of Justice

The ethic of justice describes the vast majority of businesspersons. Persons acting out of this ethic are almost always fair and honest. They can be trusted to do the right thing most of the time.



ALTRUISM

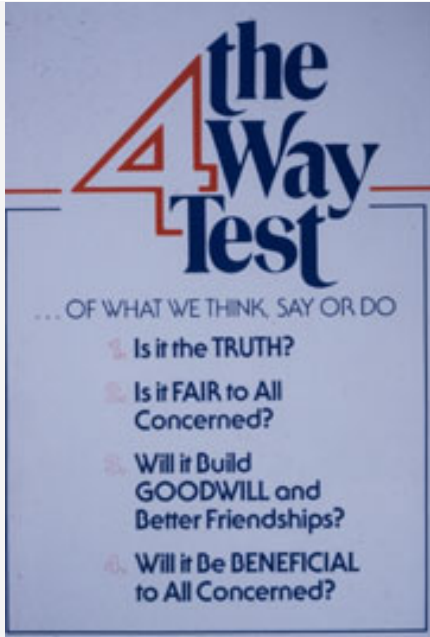
Altruism is the highest ethic. Altruists put the interests of others above their own. Business success and altruism are not usually associated. Yet there are examples of great business successes based on altruistic impulses. Some hall of fame laureates fit into this category.



Persons in business face ethical decisions at two levels. First, each business-person must choose the basic ethical system to which he/she will pledge allegiance. This is a choice among the three basic systems just described. Second, each person must apply the chosen ethical system many times a day in ethical choice situations which present themselves.

Persons in business face ethical decisions at two levels as described in the slide to your left.





In making daily ethical choices, many business leaders have found it useful to memorize and use a simple code of ethics. Rotary International's 4-Way Test is an example of such a code. The four statements in that test nicely describe the behavior of most hall of fame laureates. The 4-Way Test was created by hall of fame laureate Herbert Taylor.



The laureates have faced ethical issues in their dealings with (1) customers, (2) employees, (3) suppliers, (4) community at large, (5) stockholders, and (6) competitors.

Hall of fame laureates have also found it helpful to identify the ethical issues most frequently encountered when dealing with each of a firm's major stakeholders. Once the issues have been identified, the laureates often work out basic policies to be used in dealing with each group of stakeholders. Some inspirational examples follow.



MORAL RESPONSIBILITY AND CONSUMER

**Price
Quality
Refusal to Deal
Communication**

Laureates begin their ethical policy thinking with the consumer or customer. Four issues that are commonly addressed are listed on your left.





When price is addressed as an ethical issue, most laureates are satisfied with setting a fair price. But in a few cases, a great business success story was authored by a business leader who thought the right thing to do was set the lowest possible price. James Cash Penney was such a leader. His original stores were called Golden Rule stores (The first store, in Kemmerer, Wyoming is shown in the top panel to the left). The name changed (The sequence of logos on the left shows a few of the changes over the years). But the low price commitment remained a constant.





State Farm Insurance Companies founder George Mecherle also adopted a lowest price possible policy. He, like Penney, seems to have been motivated by a strong streak of altruism. Mecherle was a successful Illinois farmer until age 40. He then retired and worked as an automobile insurance salesman selling to farmers. He became convinced that farmers were being overcharged for automobile insurance.





To rectify that wrong, Mecherle started the company which became the giant State Farm Insurance Companies. Mecherle built the firm by constantly looking for ways to lower prices. That search took him into fire and life insurance where there was also room for a dedicated low price provider.





A third example of what appears to be an altruistic commitment to low prices is Sam Walton, founder of Wal-Mart. For those interested in judging for themselves, the place to start is his autobiography.





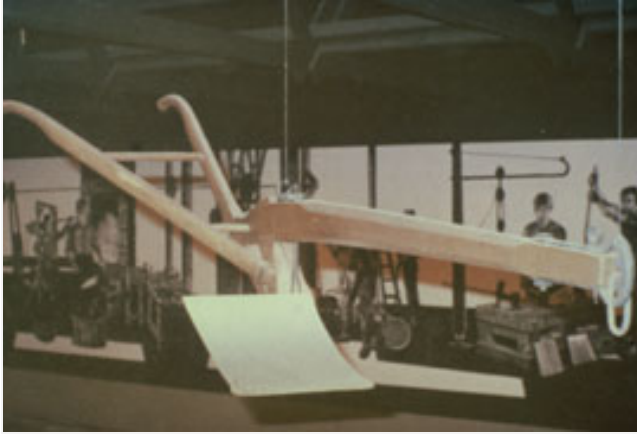
Quality is a second consumer issue.
The story of John Deere's plow is a classic example of how some laureates dealt with this issue.





Deere was working as a blacksmith in Grand Detour, Illinois when local farmers talked him into trying to develop a better plow. The existing iron plows did not work well in the clay soils of northern Illinois.





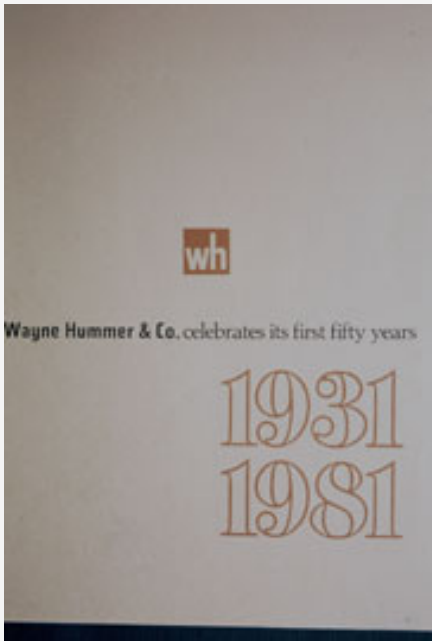
Deere invented the famous steel plow and soon began to manufacture his invention. New competitors quickly appeared. Deere sued them for patent violation. But while the legal process moved slowly forward, competitors put downward price pressure on Deere. Lesser men would have been tempted to meet the competition by cutting back on quality in order to reduce prices and still make a profit. But Deere refused to compromise quality. His ethical commitment to quality became a hallmark of Deere and Company as succeeding generations of managers kept the founder's quality commitment.





Deere's refusal to compromise illustrates a third ethical characteristic of hall of fame laureates - refusal to deal. Wayne Hummer faced this issue when he established his small securities brokerage business in 1931. At the time he was president of a bank and he had become upset by the dishonest practices of securities salesmen that preyed on his fellow bankers. Starting his own firm was his way of righting that wrong.





Hummer solved the ethical problem by refusing to deal in two standard industry practices. First, his firm would not buy securities at wholesale rates to resell to customers. Second, his employees would not be paid a sales commission nor forced to meet sales quotas. Adopting these policies put Hummer's company in the small firm niche. But it was a profitable niche and one which made it possible for Hummer to take his personal high ethical standards to work with him every day.



2. Moral Responsibility and the Employee

Employees represent a second stakeholder group that raises ethical issues. Here, too, hall of fame laureates addressed a wide variety of topics.

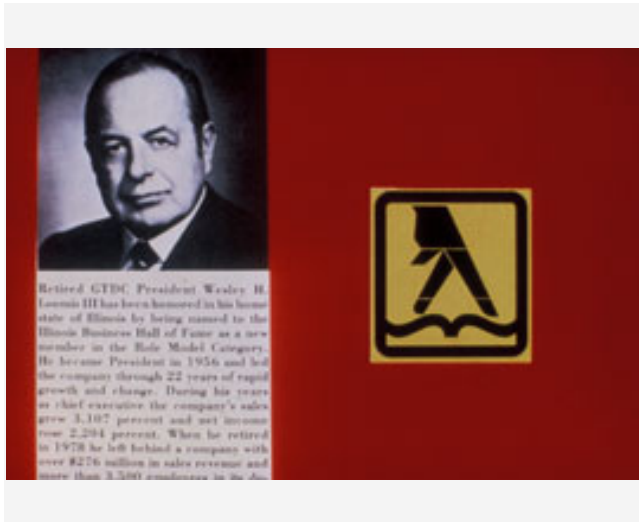


- 1. Wages and benefits**
- 2. Job Security**
- 3. Happiness**
- 4. Fulfillment**

Among the issues addressed by these business leaders are the four shown in the slide to your left.



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One inspiring solution to the issue of wages is that adopted by Wes Loomis as president of the General Telephone Directory Company. Loomis arrived as president in 1956 with a mandate to turn around a struggling sales organization, office staff and production group.





It did not take him long to spot the core of the problem - low pay. And so he developed a strategy to raise pay but to tie the pay increase to productivity so that unit costs would actually fall. He then presented the strategy to his management group and made it clear that this was both a profit and loss issue and an ethical issue.



“Our people are treated better and paid better than is the case with any of our competitors. In return, we expect our people to produce more than the competitors.”

The policy worked. The company experienced unprecedented growth during the Loomis presidency. At the end of his tenure, Loomis could look back and truthfully make the statement you see to your left. That is a success formula that applies to the vast majority of hall of fame laureates.





The Wes Loomis pay solution is particularly easy to apply to sales organizations where individual productivity can be measured. The story of D.J. DePree illustrates the application of the same principle to a situation of team production.





De Pree took control of the struggling Herman Miller furniture company in the 1920s and turned it into a highly successful business by focusing on the high quality end of the business.





In spite of the company's success, De Pree was nagged by the thought that due to lack of team work, the skilled workers were not as productive as they could be. And so he introduced an elaborate plan that rewarded increases in TEAM productivity. Called the Scanlon Plan, the new approach worked.





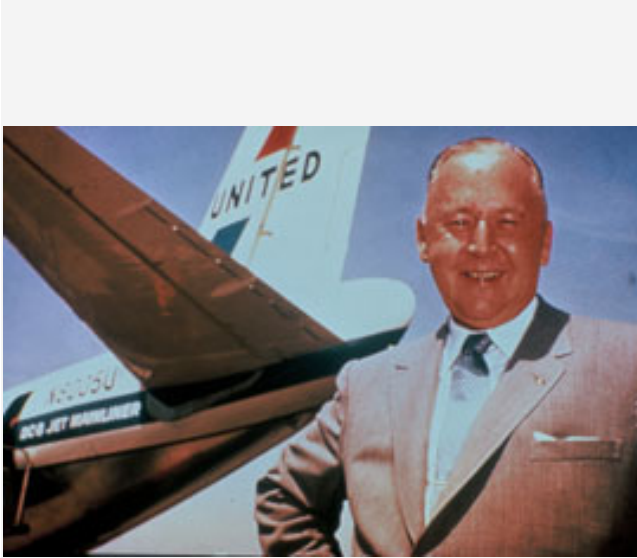
D.J.'s sons, Hugh and Max, further refined the Scanlon Plan and added numerous "servant leadership" components to Herman Miller's employment policies. Max De Pree eventually wrote about those experiences in several popular management books starting with **LEADERSHIP IS AN ART**.



Lifetime Employment

A second ethical issue in the employment area is job security. Most hall of fame laureates believed in hiring people for the long haul. Some even promised lifetime employment subject to acceptable performance and long term company profitability.





William "Pat" Patterson's policy at United Airlines (1928 -1965) illustrates one way of delivering on the lifetime promise. Patterson expected periodic drops in company income due to the business cycle. And so he set aside reserves, thereby allowing United to keep employees on the payroll during temporary periods when revenue was not sufficient to cover payroll costs.



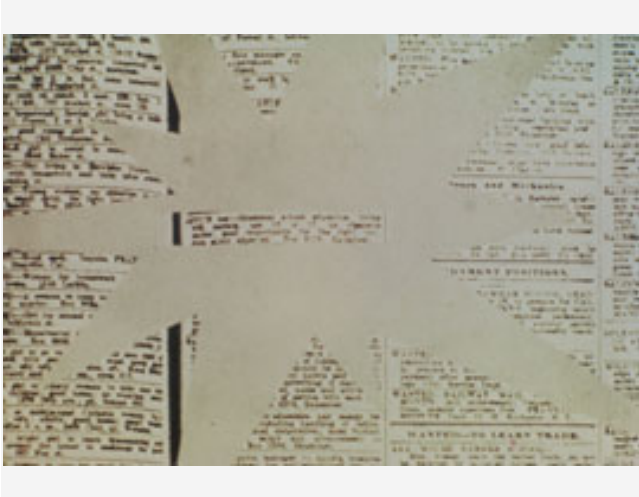
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Patterson's identification with employees can be traced back to his personal history. After graduating from grade school he went to work full time to support his mother (The photo on your left shows Pat's graduating class. Pat is in the back row, second from the right).



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Pat got his first job by answering a help wanted ad for an office boy at San Francisco's Wells Fargo Bank.





An executive at the bank spotted Pat's potential and became his mentor. F.I. Raymond insisted that Pat continue his schooling at night and arranged for the young man to be groomed for a management position.



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Pat eventually became a loan officer, made a loan to a small airline, and was hired by United Airlines when it bought the small airline.





Pat's management skills put him on the fast track to become president of United. On the way up, and thereafter, his empathy for employees stood out. And he had a simple explanation for his behavior -- This was his way of paying back F.I. Raymond for mentoring him to success.



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There is no doubt that Patterson's relationship with employees was grounded in the ethic of altruism. He could, and did, justify his policies in terms of long run profitability. But he firmly believed in a moral responsibility to provide employment in bad times as well as good.



"If a company is worth being associated with, it must demonstrate its real interest in its people at a time when the chips appear to be down."

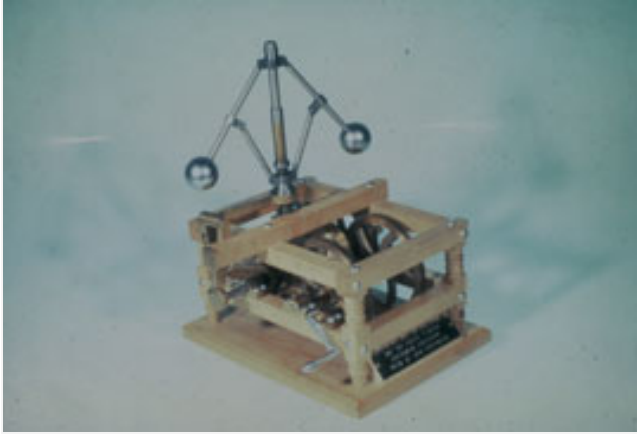
As he once put it, " If a company is worth being associated with, it must demonstrate its real interest in its people at a time when the chips appear to be down."





Patterson's method of financing lifetime employment was to build up cash reserves in good times and use the reserves to meet the payroll in bad times. An alternative approach is illustrated by the Woodward Governor Company of Rockford, Illinois.





Woodward Governor designs and manufactures governors, the mechanisms that manage the movement of ocean going ships, hydroelectric power plants and ...





...aircraft.

The man who introduced Woodward's lifetime employment strategy was Irl Martin who married the daughter of the company owner, spent 10 years proving to his father-in-law that he was capable of performing every job at the company, and was finally appointed company president in 1929.





The Great Depression began shortly after Martin took over. Company revenues fell by two-thirds. Martin and the employees jointly agreed to keep everyone on the payroll by cutting pay by two-thirds. The cuts applied to all, including Martin, himself.





Business eventually improved and pay was restored to previous levels. But Martin decided to develop a plan to better deal with the conflict between a lifetime employment promise and sharply fluctuating annual revenues. Because his plan was somewhat revolutionary, he asked the employees to develop the details in a series of committee meetings. The result was a plan that worked, in part because it came from the employees.





The new lifetime employment plan involved paying every employee a low base annual income plus a very large annual bonus that varied with company revenue. In good years, total pay was outstanding. In bad years pay was low but adequate to keep people employed and allow them to cover their basic living costs. Irl Martin had found a way to keep his promise of lifetime employment.



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We have just finished looking at two of the four employment ethics issues - pay and job security. To consider the other two we return to the views of United Airlines' Pat Patterson.



"Insofar as possible we try to satisfy personal needs on the job. We know that people want recognition for outstanding work performance. And we know that people want a sense of fulfillment in their work. We know that the man who is placed in a job he enjoys will do more than the job requires."

Patterson is representative of many hall of fame laureates in his insistence that a job at the company should give the employee an opportunity for self actualization. The slide on your left quotes him on this issue. Note the last sentence which suggests that there exists a "bottom line" argument for helping employees to self actualize. But remember, also, that Patterson's motivation had much to do with repaying his debt to his mentor, F.I. Raymond.



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“In building esprit de corps it’s not the big things but the thousands of little things that count. You have to make every one of your people feel he or she is an important part of the organization.”

Patterson is also representative of laureate views on employee happiness as a moral responsibility of management. The slide on your left summarizes the two basic principles.



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NINE THAT LIGHT THE SKY			
COMPANY		RETURN ON EQUITY 1979-88	
		Average	BEST Year
1	SERVICEMASTER	63.7%	142.2% 1987
2	PRICE	28.5%	43.2% 1981
3	UNITED PARCEL SERVICE	28.3%	37.3% 1981
4	TANDY	26.0%	40.0% 1979
5	WAL MART STORES	25.6%	27.8% 1988
6	FOOD LION	24.2%	28.8% 1979
7	BRUNO'S	22.4%	35.3% 1981
8	MARSHOTT	21.7%	32.7% 1988
9	MELVILLE	20.8%	24.0% 1979

To join this galaxy, drawn from the Service 500 lists starting on page 351, a company had to have averaged at least a 20% return on equity the past ten years, never sinking below 15%.

Highly ethical business leaders typically illustrate the argument that businesses that serve the best are the most profitable in the long run. That phrase can be interpreted in two ways - in terms of the company's long run financial results or in terms of the company employee's satisfaction at having done something worthwhile through work. The ServiceMaster Story illustrates both viewpoints.





ServiceMaster's founder, Marion Wade, began his cleaning services business with a number of unethical practices. As a committed Christian this bothered him. When a work accident temporarily left him blind he confronted the inconsistency between his work and his religion.



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He decided that he would make the two consistent. He would become a highly ethical businessman, regardless of the consequences. And before long he discovered that a high standard of ethics paid off. His one man company began to grow into a sizeable enterprise.



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*"When you work for the Lord you find
yourself raising the level of efforts. Your
job becomes more than a job. It
becomes a calling."
— Marion Wade*

An important element in the success of ServiceMaster was the high quality of service the company consistently delivered. That, in turn, came out of an altruistic ethic. Wade frequently made that point with statements such as the one in the slide to your left.



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ServiceMaster's subsequent growth was due in no small measure to two additional executives who shared Wade's view of business as an opportunity for Christian service. One of those men was Kenneth Hansen.





The other was Kenneth Wessner. Hansen followed Wade as company president and Wessner followed Hansen. All three were devout Christians who explicitly used The Bible as their fundamental management guide.



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We put the first management service contract for housekeeping into a hospital on August 31st, 1962. We still serve this facility. During the past 25 years, we have grown to manage over 1,000 health care facilities

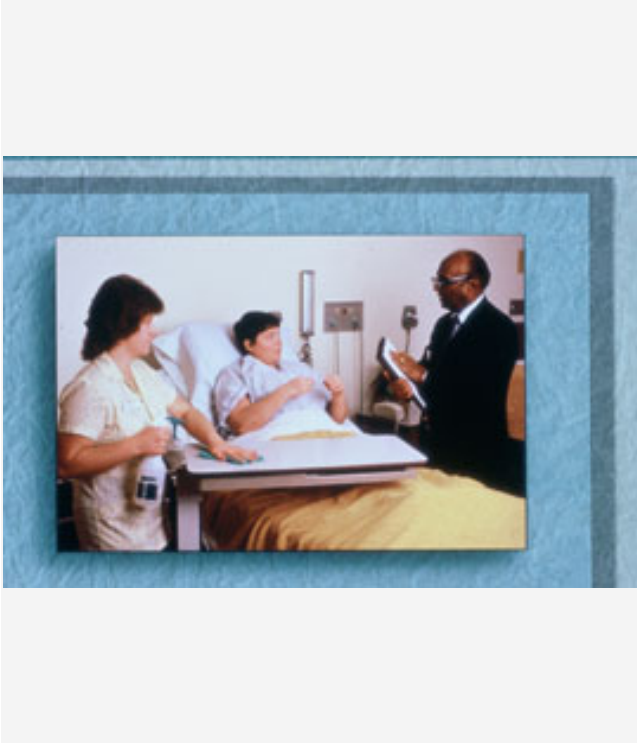
ServiceMaster Management Services

HOUSEKEEPING	1962
LAUNDRY & LINEN	1967
PLANT OPERATION & MAINTENANCE	1971
CLINICAL EQUIPMENT	1975
MATERIALS MANAGEMENT	1977
FOOD SERVICE MANAGEMENT	1981
HOSPITAL BASED HOME HEALTH CARE	1983

Since 1962, we have added other management programs. In 1967, we added laundry and linen service

ServiceMaster started as a home rug cleaning business. A major change occurred when the company began to contract to do housekeeping for hospitals. From there the company expanded into other services as indicated in the slide to your left.

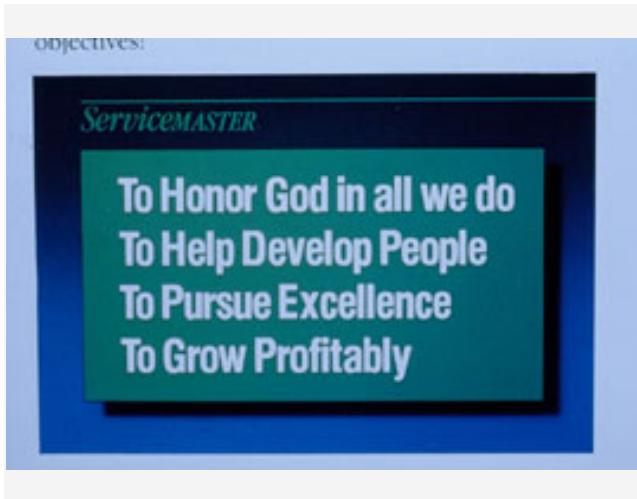




The businesses entered by ServiceMaster involved work usually viewed as demeaning. But ServiceMaster's "serve the Lord" philosophy transformed the work into a dignified calling. Thus, for example, the ServiceMaster cleaning person shown in the slide to the left, was educated to see her work as just as important to the patient's healing as the skills of the attending physician (standing in the slide to your left).

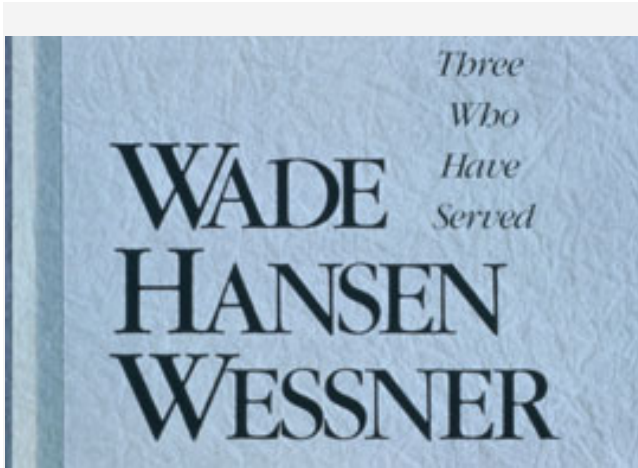


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During Hansen's years as ServiceMaster president the company adopted the formal statement of goals shown in the slide to the left. Note the company's belief that a high standard of ethics (first three goals) is consistent with profitable growth.





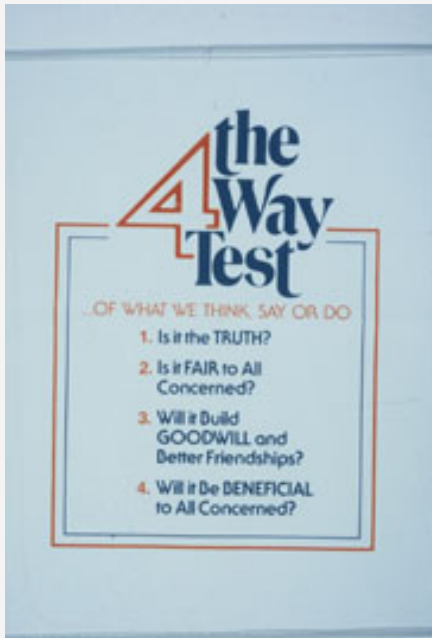
After they had retired, Hansen and Wessner were asked how they and Wade would like to be remembered. Their short answer was ---THREE WHO HAVE SERVED. For them, being able to serve and doing so successfully was its own reward.



The laureates have faced ethical issues in their dealings with (1) customers, (2) employees, (3) suppliers, (4) community at large, (5) stockholders, and (6) competitors.

Hall of fame laureates typically identify six stakeholder groups and work out ethical policies for each group. We have covered the first two listed on your left and will stop there.





If you want to speculate as to laureate policies with regard to the other four stakeholder groups, try using the Rotary 4-Way Test. That guideline does a reasonably good job of expressing the thinking of the great, ethical business leaders. Clearly, a high standard of ethics is not only compatible with business success --- but may also be a key to that success

