It seems particularly timely for the Rady Business Journal to devote an article to the topic of ethical behavior in organizations. In today's corporate world, the landscape is littered with examples of self-serving, irresponsible behavior—Enron, British Petroleum, big banks, and investment firms, to name a few. The nonprofit sector is hardly immune. The sexual abuse crises involving Penn State University, the Catholic Church, and the Boy Scouts of America provide vivid examples of the lack of effective, ethical leadership.

A defining moment in the history of any organization is how it responds to a highly visible crisis that causes serious harm to individuals or communities. In today’s environment of 24/7 communication and global transparency, the need to be prepared and to act quickly, ethically, and effectively is essential. Organizations must balance their own interests with the public interest, and when in doubt, the public interest should prevail.

The current era of crisis management probably began in 1982 when Johnson & Johnson was confronted with several deaths resulting from Tylenol capsules that had been tampered with and contained poison. James Burke, the company’s chairman and CEO, promptly ordered that all Tylenol be removed from store shelves to reduce the risk of additional harm. This was despite a large short-term loss in revenue.

Duane Roth, the president of San Diego’s CONNECT, worked at Johnson & Johnson then and vividly recalls Burke saying that he was never in doubt about what to do because the published values statement of the company was exquisitely clear that the well-being of customers came first. By acting in the public interest first and visibly so, the company survived the crisis and subsequently received many accolades for its ethical action.

Imagine if the leaders at Penn State had acted in a similar fashion and put the well-being of the young men who were potentially harmed ahead of their concern about the reputation of a long-standing head football coach and a successful program that made money for the university. How differently would the public regard the leadership of the organization and its leaders today?

In my 45 years in health care, including 26 as president and CEO of Rady Children’s Hospital, I have been involved—not surprisingly—in a few serious adverse events that became public. In each case, our fundamental commitment was to our patients and families first and our staff and community second.

In each case, we provided prompt and proactive communication in a transparent fashion internally and externally. We balanced transparency with the privacy concerns of patients, families, and staff. In addition to our statements, we shared our honest feelings of sadness, empathy, and outrage. I will always remember one press conference that we held where about half of the members of the media in the room shared in our tears. As a result of our approach, we received an outpouring of community support, sustained philanthropy, and several awards from the media for honesty and transparency.

In today’s Internet era, the public increasingly expects transparency and wields greater power through social media. As a result, some of the old rules no longer apply. For example, overly protectionist legal and media advice may often be bad advice. Studies show that prompt, appropriate public disclosure and apologies often decrease, rather than increase, legal and financial risk.

Today, organizations need to develop a comprehensive crisis management plan. It must be based on a “just” culture and not a “blame” culture. When a crisis occurs, visible CEO and senior leadership involvement is essential. Leaders must put aside their calendars and involve all stakeholders around the clock while fully collaborating with all relevant agencies. They must “own” the problem themselves and be cautious of delegating media leadership to an outside firm.

A comprehensive plan must include agreements with legal counsel and insurance carriers about the philosophy, values, and approach that will be followed. Effective media training is essential. Communicating with the media is a learned skill, and organizations should identify in advance who will speak on their behalf on which topics and then prepare them to do so. This training should include specific skills in how to communicate in a crisis.

Personally, I never said “no comment” to a media request. I did say very specifically what we could say, what we could not, and why. Timing and speed of communication is critical. I always believed in being proactive, not reactive, to issues.

The Institute for Healthcare Improvement has developed an excellent white paper titled “Respectful Management of Serious Clinical Adverse Events” by Jim Conway, Frank Federico, Kevin Stewart, and Mark Campbell. While focused on health care, its organizational assessment checklist provides an excellent framework for any organization to use in developing a plan. I highly recommend it.

I have always been impressed that the mission statement of the Rady School is “to educate ethical leaders for innovation-driven organizations.” In addition, one of the school’s five core values is integrity. I hope that all Rady graduates will help lead us into a new era of corporate integrity and ethical behavior. Our customers deserve it, and our nation will benefit from it.

Blair Sadler is a senior fellow at the Institute for Healthcare Improvement. He is an associate clinical professor at the UC San Diego School of Medicine and an executive in residence at the Rady School of Management. He served as president and CEO of Rady Children’s Hospital in San Diego from 1980 until 2006.

The Ethical Imperative: More Important Than Ever

by Blair Sadler, Lecturer

Crises test an organization’s commitment to its values and the public.