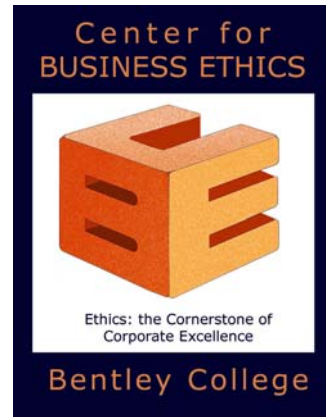


IN SEARCH OF ETHICAL LEADERSHIP

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It's impressive to see so many of you here tonight. That doesn't make me tense – just terribly, terribly alert!

I've been asked to speak for 20 minutes, which reminds me of the CEO who was asked to give the keynote address at an important convention. He asked Bowers, one of the company's young rising stars, to write a punchy 20-minute speech for him. When the CEO returned from the big event, he was furious. "What's the idea of writing me an hour-long speech? Half the audience walked out before I was finished!" Bowers was baffled. "I wrote you a 20-minute speech," he replied, "and gave you the two extra copies you asked for."

Tonight, I would like to make three points about business ethics. And don't worry – I'm sure I've only got one copy of my speech with me.

A COMMON MYTH

First, I want to debunk a common myth that ethics in business is just about the ethics of individual people, and not about the ethics of organizations. So if an organization hires good people, then it will be an ethical organization and its people will act accordingly. And, as the myth goes, all of the unethical actions in business that we hear about are simply the result of bad people; rotten apples in the corporate barrel.

Of course it is true that unethical actions by individuals can damage an entire organization. We have witnessed this with the likes of Skilling at Enron and Kozlowski at Tyco. Even Martha Stewart got in on the act; in her show, she was showing us how to make bail. So we know that the character and reputation of an organization is dependent on individual integrity.

But this isn't the whole story of business ethics. Ethical people can be brought down by serving in a bad organization, just as people with questionable integrity can be uplifted, or at least held in check, by serving in an organization with clear and strong values.

So my first point is to make a distinction, and an essential connection, between individual integrity and institutional integrity. Individuals come to an organization with their own values, their personal moral codes; their own idea of what is right and wrong. In many cases, their values may be shared. But it's not for the organization always to tell its employees what to think or what to believe. They're individuals. They have the right to individual moral autonomy and the organization must recognize this. In so doing, the organization creates an opportunity for moral evaluation and constructive change of institutional policy. Individual moral autonomy is the counter to what might be called the "gray flannel suit" mentality, whereby everyone marches to the beat of the corporate drum.

Nonetheless, there has to be something to bind all of the individuals together, to make them pull in the same direction and to behave in ways that are commonly accepted. This is the function of what we'll call institutional moral authority. It is that which constitutes the organization's character and the way it does business. First, this defines responsibilities to the collective. Secondly, it preserves unified cultural values, giving direction and meaning for individual action. Finally, it sets a guiding framework for ethical decision-making.

I'll conclude my first point by asking, how can we reconcile individual moral autonomy with institutional moral authority? The short answer is ethical accountability.

Individuals in an organization must be accountable to the organization and to each other. The organization, in turn, must be accountable to the individuals who are its constituents, whether they are employees, customers, shareholders, retirees or others. For an organization to have an ethical culture, both individual and institutional integrity must be honored, properly blended and nourished.

CHECKBOX MANIA

My second point tonight is a warning of a danger I can foresee. The danger looks like this [holding aloft checkbox prop]. For those of you who cannot see, this is a checkbox and I'll tell you why it's dangerous. Business ethics is a relatively new field – probably no more than 30 years old. I've seen it develop through the political scandals of the Seventies, the defense industry corruption problems of the Eighties and the Federal Sentencing Guidelines in the 1990s. Particularly since the early Nineties, it seems to me that there has been a tendency to equate ethics with compliance with rules and regulations.

The thinking goes like this: "If we impress upon our employees the imperative of complying with all the laws and regulations that affect our business, and we do comply, then we won't get into trouble. That'll make us an ethical company." Compliance with laws and regulations is important – in fact, essential – and employees need to know what the rules say. But I can tell you that knowing the rules does not make people follow them. There needs to be more. Especially with the passing of the Sarbanes-Oxley Act last July, and the introduction of new listing requirements by the New York Stock Exchange and the other exchanges, I do not think the tendency to equate compliance with ethics is about to diminish. In fact, I fear it will increase.

I think that many good things will come out of the recent legislation – more accountability for financial reporting, avoidance of conflicts of interest and more rigorous corporate governance, to name but three. But corporate America must not become preoccupied with a profusion of rules and an obsession with checking boxes. If we are to ensure the ethical future of business, we must get back to basics – what I see as a values-driven approach. People need to be able to recognize when they're getting into an

ethical gray area and to know how to navigate their way through it by reference to some fundamental principles and values.

These values and principles are the means by which we define what is right, good and just. They guide us in choosing between the good and the bad. They are our standards. Our values and principles serve as the basis for making sense out of rules and regulations and guide us in areas where rules and regulations are absent or don't apply.

An organization needs to be clear on what its values are – a surprising number of corporations are not clear – and those values need to be formulated and communicated so that that they not only make sense, but also resonate with everyone in the organization. Those corporations that are on the ethical leading edge – such as Johnson & Johnson, Baxter and, to be sure, tonight's award-winners – are driven by the conviction that whatever they do in business must be consistent with their values. When businesses are run in this way, compliance with laws and regulations tends to be something that employees naturally factor into their decision-making processes.

DEVELOPING AN ETHICAL CULTURE

This leads me to my third and final point, this evening. I want to say a few words about how we get to the state of ethical development that I have just described. Put another way, I want to speak about developing ethical cultures and, at the pinnacle of that process, the concept of ethical leadership.

In my view, there are four major interrelated and sequential stages of ethical development that an organization has to go through. Just now I used the word 'pinnacle'. Equally, I could have said 'apex' because the stages can be represented as layers in a pyramid. At the bottom, you have ethical awareness. Building on this, you have ethical reasoning. Above that is ethical action. At the very top of the pyramid is ethical leadership.

For business to thrive trust is essential; it has to be nurtured and protected. Employees working in a business need to feel this instinctively. They need to be aware

that they will face situations in business where it isn't clear which path they should take; and that the choice they make might either nurture a relationship of trust or might damage it. The choice may not be clear, perhaps because it's not a not a black-and-white choice between right and wrong, but in one of the gray areas. So the first necessary step in the ethical development of an organization is cultivating ethical awareness among its people – an ability to recognize and be sensitive to ethical issues when they arise. We might describe this effort as getting the organization fitted with "moral glasses" so it can better see the ethical landscape.

Awareness is all very well, but it is how people make their choices that counts. When someone encounters an ethical dilemma, they need a way to analyze the issues and weigh up the options. I call this ethical reasoning. The key here is having decision-making models and criteria – an "ethical toolbox," so to speak. For instance, this might take the form of a flowchart or a quick test. Often, this will turn out to be a fresh presentation of principles or ideas that people have had all along, but may not have used, or may not have been consciously aware of. Some company "toolboxes" ask employees to consider if they would feel fairly treated if the situation were reversed; whether the decision would still be right if it set a precedent; and whether the decision would hold up if it became public.

But effective ethical reasoning is all for nothing unless it is followed up with action. Ethical action is the third layer of the pyramid I mentioned. People need to be given confidence and support from their organizations in order to do the right thing and move the organization forward as a result. Confidence comes from frequent and effective training and constant positive reinforcement of the kind I'll mention in a moment. As for support, in this context I'm talking about having the infrastructure and resources in place so that people do not feel isolated when confronted with an ethical dilemma. In the worst cases, employees feel they have no support systems, don't know how to approach their supervisors or don't know who to talk to. In the best cases, they know clearly the route they can take to resolve a particular ethical problem.

This brings us to the uppermost layer of the pyramid: ethical leadership. By this, I'm not referring just to the responsibilities of the organization's senior management,

though their support is absolutely critical. I'm talking about leading participants to the conclusion that developing, strengthening and maintaining an organization based on values is everyone's job. I'm talking about inspiring ethical conduct from the boardroom to the mailroom. The ethical leader inspires emotions and motivates behavior consistent with appropriate values.

Ethical leadership can be given at any level within the organization – and anyone can show ethical leadership – but if those at the top of the organization are not giving ethical leadership, it is unlikely that there will be many ethical leaders in ranks below.

Let us consider for a moment the other side of the coin: ethical leadership failure. This is where there is disconnectedness between what is said and what is done. One might call it the "values/action gap." The ultimate price to pay for this is very high indeed. This failure, perhaps more than any other single factor, was central to the ethical disasters that occurred at Enron, Andersen, WorldCom, Tyco and the other corporations that hit the headlines – and we can only guess how many reputations, livelihoods and business relationships were wrecked as a consequence. What are the symptoms of ethical leadership failure and how do we avoid them? I see seven symptoms – we might call them "the Seven Ethical Sins" – and also seven antidotes.

First, there is ethical blindness; a failure to see, or a reckless disregard for, the ethical implications of what we are involved in.

The second symptom is ethical muteness: the inability, or unwillingness, to communicate ethical messages to those who need to hear them. Such silence implies our consent to possible unethical actions.

Thirdly, there is ethical incoherence: the inability to think clearly within an ethical context, or to draw proper ethical conclusions from a set of alternatives.

The fourth symptom is ethical paralysis: the inability to put values into action, for whatever reason. Confucius said, "To know what is right and not do it is the worst cowardice."

Fifthly, one can encounter ethical hypocrisy: saying one thing and doing another; and what is equally bad, telling others to do things when we are unwilling to do them ourselves.

A similar vice, and number six on the list, is ethical schizophrenia: behaving inconsistently and unpredictably when dealing with ethical issues – for example, acting one way at the office and another way at home.

Finally, number seven and perhaps the biggest enemy of ethical leadership, is ethical complacency. This is always a dangerous state to be in but it's doubly true where business ethics is concerned. It's a state in which we think that because we're so ethical, we couldn't possibly do anything wrong. Of course, that is just the time when we will take an ethical misstep because we are unaware of the moral pitfall in front of us.

So how do we counter these symptoms of ethical leadership failure? How do we close the values/action gap?

There are antidotes. For ethical blindness, we must apply ethical awareness. For muteness, there is ethical communication. For incoherence, there is ethical understanding. The cure for our ethical paralysis is ethical effectiveness. For hypocrisy, there is the antidote of integrity – becoming a whole, unified ethical person. For our schizophrenia, we must find ethical consistency. And finally, our ethical complacency can be healed by constant doses of ethical humility. As the British author Henry Fairlie wrote, "The foundation of humility is truth. The humble man sees himself as he is." I might add that ethical humility is ability to recognize in oneself the possibility of falling victim to unethical behavior, and it is this recognition that keeps us sensitive and watchful.

I can probably summarize what I have said about ethical leadership failure in saying it is best avoided by a firm grip on reality and the development of good habits, with a healthy prescription of listening to those around us and, when appropriate, asking their advice. This said, ethical leadership is born of the realization that it is a human characteristic that develops not in isolation but through interaction and communication

with others – the mirrors through which we see and understand ourselves.

Ethical leadership is the hallmark of the truly ethical corporate culture. It marks the supreme evolution of the organization in ethical terms. Ethical leadership motivates and influences the thoughts and actions of individuals at all levels of the organization and characterizes the organization as a whole. I mentioned, and stress again, the importance of values in the process of building an ethical culture. Values should underpin and inform everything the organization and its people do. I'll leave you with the thoughts of someone remembered more for his musical than philosophical contributions to our society: Mr. Elvis Aaron Presley. He said: "Values are like fingerprints. Nobody's are the same, but you leave 'em all over everything you do."

Thank you very much.

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