Leadership and Business Ethics

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<u>ethics</u>

Being an ethical manager should be a straightforward matter. Just do the right thing and all else will follow. But doing the right thing is not that simple. This is not because ethical decisions are sometimes difficult to make: all mature persons face difficult decisions. Nor is it because ethics takes courage. The problem for the ethical manager is knowing what the right thing to do is.

For some people this might seem a spurious problem. They might say that we are taught the difference between right and wrong from infancy and all we have to do is continue in the ways established by our parents. We should be honest, truthful, generous, trustworthy, reliable, responsible, diligent, and compassionate. We should be examples of virtue in our families, occupations and civic lives. As the virtues of integrity and consistency apply in each role, it follows that a virtuous leader will be a virtuous person.

Does this sketch of the moral manager seem plausible? Milton Friedman has offered a view which is very pertinent to this question. According to Friedman, the business of business is business. It is not the doing of good, or at least not the doing of good independently of making profits. It is not to do evil either, but here he enters a kind of caveat: the kinds of virtue appropriate to the family or social relations will not be the kind which ought to be practised in business. As a business leader, a person occupies a role which is governed by legal and moral considerations. To be generous with an organisation's money; to retain an incompetent worker out of compassion; to be truthful where concealment is required; to exceed the law on environmental standards - all of these things are self-indulgent of the manager and contrary to the management role. To be generous, compassionate, honest and truthful when other virtues are required is to fail as a manager. It is also to send a wrong message to your employees, namely that it is permissible to bring private values into organisational decision making and substitute private goals for corporate ones.[1]

This, a Friedmanite would argue, is unethical. One takes the role of manager to do the best one can for the owners of the organisation. One works within its articles of association and stated mission and the requirements of the law. Social

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[1] Milton Friedman, 'The Social Responsibility of Business is to Increase its Profits', *The New York Times Magazine*, 13 September 1970.

responsibility, generosity, and other such values, which are important in one's

private life, are out of place in discharging the fiduciary responsibilities of a

manager.

So now we see more clearly the difficulty faced by managers in providing ethical

leadership. Many of the things they are required to do in their managerial role

would not seem to the public or to their employees as ethical in the family or civic

sense at all. The following table illustrates the putative opposition between two

sets of norms:

Societal norms or ethics	vs	*Organisational counter norms*
Be open and honest.	vs	Be secretive and cautious.
Follow rules faithfully.	vs	Do whatever it takes to do the job.
Be cost effective.	vs	Use it or lose it.
Take responsibility	vs	Pass the buck.
Be a team player	vs	Enhance your own status.[2]

The question is whether we would wish to accept such a role-governed view of

morality. It is a view which is at odds with common intuitions about integrity.

That it is rational does not of itself constitute a sufficient justification. Nor does

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[2] Adapted slightly from Jansen and Von Glinow "Ethical Ambivalence and Organizational Reward Systems", *Academy of Management Review*, 10, 1985, pp. 814-822, quoted by R.A. Sims, "The Challenge of Ethical Behaviour in Oranizations", *Journal of Business Ethics*, 11, July 1992, p. 508.

the fact that organisational rationality might bring success in the form of earnings and dividends. On the contrary, it would disturb many people. Twenty years ago, psychotherapist Michael Maccoby identified the traits which commonly led executives to successful careers. Chief among these was emotional detachment. Maccoby argued that emotional detachment destroys integrity - the wholeness of the person. It is aligned with traits of the head - initiative, co-operativeness, flexibility, and coolness under pressure - at the expense of traits of the heart such as honesty, friendliness, compassion, generosity, and idealism. Maccoby suggests that management needs both types of qualities. He has a point. Bureaucratic organisations in private and public sectors often systematically select against the wholeness needed by leaders and managers.[3]

Only a slight adjustment is needed to see that Maccoby's argument for psychological wholeness applies equally to ethics. Emotional detachment has an analogue in moral disengagement. Examples come readily to mind: the responses of NASA to Challenger, of Union Carbide to Bhopal, of Exxon to the Exxon Valdez disaster, of Bearings Bank to Nick Leeson's dealings or of Alan Bond to the Tooheys hotel leaseholders. The ethical organisation would hire managers who have integrity as well as ability; who work with the heart as well as the head. Ideally, they would be governed and lead by such people as well.

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[3] Maccoby's argument is discussed in Kenneth E. Goodpaster, "Ethical Imperatives and Corporate Leadership" in R. Edward Freeman (ed.) *Business Ethics: The State of the Art*, (New York: Oxford University Press, 1991), pp. 89-120.

Robert Jackall's classic study of corporate bureaucracy, *Moral Mazes*, identified moral detachment as pervasive in business organisations. The theme of *Moral Mazes* is that managers constantly adapt to the social environments of their organisations in order to succeed. In such contexts, they have no use for abstract ethical principles, but conform to the requirements of bureaucratic functionality. He quotes one manager as saying in Friedman style, "What is right in the corporation is not what is right in a man's home or in his church. *What is right in the corporation is what the guy above you wants from you*. That's what morality is in the corporation."[4] The CEO's 'word is law'. Jackall found that high sounding moral principles do not matter much in the daily functioning of the corporation or organisation. What shaped organisational morality were such factors as duties, status and market environment.[5] The rules of corporate life were aligned to survival in terms of such morality: (1) Don't go around your boss; (2) even if your boss invites dissent, tell him or her what he or she wants to hear; (3) if the boss wants something dropped, drop it; (4) anticipate the boss's wishes - don't force him or her to act the boss; (5) do not report what the boss does not want reported, cover it up and remain silent.[6]

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[4] Robert Jackall, *Moral Mazes*, (New York: Oxford University Press, 1988) pp. 6, 111.
[5] Ibid. p. 6.
[6] Ibid. p. 109-110.

Jackall notes that power in corporations is centralised at the top in the person of the CEO, while 'responsibility for decisions and profits' is pushed down the line as far a possible. This has ethical implications. The displacement of responsibility for decisions onto subordinates takes the burden from senior managers and the person at the top. Too much knowledge is a dangerous thing for a CEO. It's much better to have an Oliver North to take the blame for things which go wrong and to know nothing of the details. The system functions like this:

> the pushing down of details creates great pressure on middle managers not only to transmit good news but, precisely because they know the details, to act to protect their corporations, their bosses, and themselves in the process. They become ... the potential 'fall guys' when things go wrong.[7]

In other words, the ethos of these organisations was conditioned by a hierarchy of command. What the person above wanted or rejected had become the norm and standard.

> The continuous uncertainty and ambiguity of managerial hierarchies ... causes managers to turn towards each other for cues for behaviour. They try to learn from each other and to master the shared assumptions, the complex

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[7] Ibid. pp. 17-21.

rules, the normative codes, the underlying institutional logic that governs their world.[8]

This command model of leadership with its corporate closure and harmony of attitudes is ethically dangerous. It engenders, as Roger Boisjoly has felicitously put it, the practice of 'malicious obedience'.[9] There is no reference to the wider world of ethics or stakeholders in anything but a strategic sense. Boisjoly's argument is that ethical failure - that is, failure in the critical areas of responsibility, authority and accountability - leads to poor quality products and services and ultimately brings about the destruction of the business. The command model of leadership contributes directly to such ethical failure through 'malicious obedience'.

Friedman's views, then, are not merely ideological: they have a basis in fact. If Maccoby, Jackall and Boisjoly are correct about the world of bureaucratic organisations, then it is little wonder that they select against the 'moral point of view'. Role, moral detachment and malicious obedience are not the practices to make one confident in acting in accordance with ethical norms. If only the productive abilities and technical skills - the head traits - of managers are valued

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[8] Ibid. pp. 37-8.
[9] Roger M. Boisjoly, "Personal Integrity and Accountability', *Accounting Horizons*, Vol. 7, March 1993, pp. 59-69.

by organisations, then it is not only high profile entrepreneurs and rogues who are

a problem: it is also the business system.

This systemic problem has been diagnosed by Kenneth Goodpaster as 'teleopathy'

- the mind set or habit of valuing the achievement of goals above all else, and

ignoring the moral licitness of the means employed to gain them. Teleopathy

> is the unbalanced pursuit of goals by an individual or group. Teleopathy
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> ...is a suspension of "on-line" moral judgement as a practical force in the
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> life of an individual or group. It substitutes for the call of conscience the
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> call of decision criteria from other sources: winning the game, achieving
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> the goal, following the rules laid down by some framework external to
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> ethical reflection. These other sources generally have to do with self-
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> interest, peer acceptance, group loyalty, and institutional objectives that
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> themselves may have broad social justification.[10]

In the world of functional rationality, short term results are what managers are

judged by. The accomplishments of an hour ago are quickly forgotten and the

focus moves not to next year or next month, but to tomorrow. At least this is what

Jackall found in American corporate life. Long term success must be subordinated

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[10] Ibid. p. 94-5.

to short term goals if the manager is to maintain the confidence of his or her superiors. "We're judged on the short-term because everybody changes their jobs so frequently," Jackall quotes a manager as saying. For many managers, it is a matter of necessity, not a matter of moral choice. They do not wish to abandon moral principles, but find it difficult to implement them in corporate contexts. So they put survival first and rationalise ethical detachment until they feel more secure or until the ethical bug stops biting. Jackall quotes a corporate lawyer as saying, "in a big bureaucracy like this, very few individual people can really change anything". This defeatism produces its own ethic. Success in such a world is the ability to outrun your mistakes, not to do good. Mistakes are left to your successor in the position.[11] In Brecht's succinct summation of the problem in *Threepenny Opera,* "First grub, then ethics". Or, as Bob Dylan said, "People don't do what they believe in, they just do what's most convenient - and then they repent".

It has become a commonplace in discussions of the ethics of organisations that the single most important factor in engendering and sustaining ethical conduct is the example of the leader.[12] This can be overstated: the conduct of leaders will be conditioned to a greater or lesser extent by the context in which they work,

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[11] Jackall, *Moral Mazes*, pp. 84-91.
[12] See, for example, William D. Hitt, *Ethics and Leadership*, (Columbus: Battelle Press, 1990), 'Introduction'; Ronald Sims, "The Institutionalization of Organizational Ethics", *Journal of Business Ethics*, Vol. 10, July 1991, pp. 493-506.

whatever their aspirations. Traditional hierarchical structures have produced the cultures and fostered the attitudes documented by Jackall.

Directly opposed to these attitudes is the view that the modern organisation is too complex for the boss to manage in anything like a hands on way. Leaders should take responsibility for a culture of high performance rather than the various performances themselves. Charles Hampden-Turner suggests that

> The whole notion of leaders and followers is increasingly out of date and may even be a source of confusion. Followers 'lead' in a variety of ways, using judgement, knowledge, skill and self-management. Leaders may have to spend large amounts of their time 'following' what skilled subordinates are trying to tell them.[13]

Bureaucratic culture has become inappropriate in modern organisations. It is too segmented to allow the sharing necessary to maximise the resources of an organisation. Against the formal virtues of bureaucracy, such as stability and predictability, there are the limitations that it is "static, segmentalized, rule-based, hierarchical and slow to respond." What is needed instead is a "clan culture" of

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[13] Charles Hampden-Turner, *Corporate Culture*, (London: Piatkus, 1994) pp. 17-19.

sharing and cooperation amongst people which is at the same time capable of rapid adaptation.[14].

The strategic advantages of flatter and more flexible organisations are matched by ethical ones. Bureaucratic compartmentalisation justifies managers' ignorance about problems and excuses them from trying to find out about them.[15] Bureaucracies hide responsibility and filter accountability. As Karl Mannheim pointed out, they transform "all political issues into matters of administration".[16] They might also be said to transform all moral issues into technical ones, and to separate people from the consequences of their actions. They also provide rationalisations like "cost-benefit analysis" to resolve moral difficulties: Ford calculated that injury and the loss of human life ($49.15 million) was cheap compared to the costs of modifying its dangerous compact car, the Pinto ($137 million).[17] Crucial to the decision was the separation of the decision makers from the consequences of their decisions, and a bureaucratic committee system which effectively impersonalised responsibility.[18] The same was true in the disastrous launch of the Challenger despite an initial refusal from booster manufacturer, Morton Thiokol. The NASA manager - himself under great pressure from his

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[14] Hampden-Turner, *Corporate Culture*, p. 19.
[15] Jackall, *Moral Mazes*, p. 194.
[16] Jackall, *Moral Mazes*, p. 127.
[17] Manuel Velasquez, *Business Ethics*, 3 rd. edn. (Englewood Cliffs: Prentice Hall, 1992) p. 112.
[18] See the personal account of the manager in charge of recalls, Dennis Gioia "Pinto Fires and Personal Ethics: A Script Analysis of Missed Opportunities", *Journal of Business Ethics*, Vol. 11, May 1992, pp. 379-389.

organisation to get a result - asked the rocket maker, "My God Thiokol, when do you want me to launch, next April?"[19] Role replaces judgement. The reaction of the General Manager of Morton Thiokol to the demands of NASA was to tell his Engineering Vice President to "Take off your engineering hat and put on your management hat."[20] Jackall found that "Such rationalisations help managers apply a thoroughly secular, pragmatic, utilitarian calculus even to areas of experience that, in their private lives, they might still consider sacred."[21] Corporate necessity married to personal expediency destroys ethical autonomy, although moral fables would always bring rogues to a more fitting end than a mansion in Majorca. Cicero writes optimistically that "there can be no expediency where there is immorality ... that which is morally right is also expedient". For those

> who measure everything by a standard of profits and personal advantage
> and refuse to have these outweighed by considerations of moral rectitude
> are accustomed, in considering any question, to weigh the morally right
> against what they think the expedient; good men are not..[22]

A give away about the ethical attitude of a manager is the cliched response, "I acted within the law". Ethically this approximates Bart Simpson's line: "I didn't do it, nobody saw me do it, you can't prove a thing". There is an important sense

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[19] Boisjoly, "Personal Integrity and Accountability", p. 63.
[20] Ibid. p. 63.
[21] *Moral Mazes*, p. 127.
[22] Cicero, *De Officiis*, transl. Walter Miller, (Cambridge, MA: Harvard University Press, 1913), III, 35, and 17 respectively.

in which top level managers have to be ethical minimalists, and that is the sense in which they implement what is practicable and set minimum standards of conduct for their employees. Briefly, if you can't make employees *moral* - and you can't - you can at least expect compliance: you can require them to be *ethical*. This said, the executive who is an ethical minimalist and leans heavily upon mere conformity with the law, and whose standard excuse is that unethical conduct is not legally proscribed is asking for trouble. It is not always true that fortune favours the virtuous, but nor is it true that unethical conduct, even if legal, is cost free. An ethical minimalist invites employees to set low standards.

We would all like to be our ideal selves even when we fail. In deciding for short term gains even at the expense of principle, managers may be shelving moral principles without necessarily abandoning them. This might be a small comfort in an environment where personal ethics seem to have a limited place, but it does mean that people can be recalled to ethical conduct. What they need is leadership which is not bound by short term thinking or teleopathy. James McGregor Burns has called this transformational leadership.[23] It is essentially about the personal as well as professional development of staff through an appeal to values, and beyond that, to their further development. Burns contrasts this style with transactional leadership in which the leaders and followers engage in a mere exchange of benefits, for example, monetary rewards for meeting designated targets. But

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[23] James McGregor Burns, *Leadership*, (New York: Harper and Row, 1978).

transforming leadership is also an exchange. The view that everything would be right if only we had a good leader is immature. Good leaders are well supported. In their ordinary working lives, managers should not be expected to be moral heroes. Moral leaders need the support of their subordinates to retain their standards. And ethical subordinates would prefer not to have to shelve their ethics at work. This is an exchange which is worthy of an ethical organisation.

Such exchanges would take structural change as well as moral leadership from managers. Given Jackall's findings, it is hard to see a place for personal ethics in the public realm, let alone modern organisations. Thomas More believed that tough things had to be done in political life as part of the job, but only to the extent that evil could be ameliorated. Once co-opted to the side of vice, it is no good saying that you privately disagree with it. This is a message repeated often by Roger Boisjoly, the best known of the dissenting engineers on the Challenger launch. For Boisjoly, that crisis was only the most dramatic ethical issue to confront him in organisational professional life, but "The continuous lesson learned from these personal experiences is that the good guys can win."[24]

This Ciceronian optimism is echoed by Thornton Bradshaw, chairman of RCA, who declared himself

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[24] Boisjoly, 'Personal Integrity and Accountability', p. 61.

a great believer that leadership, in a large part, is moral leadership. And

people want to follow moral leadership. They respect it. And they expect it

too. ... if the head of a business, for instance, accomplishes everything the

shareholders want in terms of increasing the price of shares and increasing

dividends and earnings and so forth - if he still fails in terms of this moral

leadership, in the long run, that company is not going to prosper.[25]

Most of this quotation is properly edifying, but it falters at the end. Companies

whose leaders fail ethically might well be wrecked, but that is not a matter of

ethical causality. Mr Bradshaw should have concluded that even if earnings and

dividends increase, ethical failure will not be overlooked. The incentive for ethical

leadership is to be the kind of person, public and private, we would really like to

be. This does not always bring success of a material kind, as Thomas More

illustrates, but it does hold the line for good against evil. If moral heroism cannot

be an everyday requirement of leaders, self-interest is not an acceptable fall back

position.

Moral failure once brought public shame, but even loss of public esteem is not

certain nowadays. Trevor Sykes' splendid *Bold Riders* is replete with examples of

ethically dubious business leaders who were too readily lauded by opinion leaders,

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[25] Quoted by Hitt, *Ethics and Leadership*, p. 136.

including, as Sykes admits, himself.[26] People do expect results from the leaders of corporations, but they also expect a high level of ethical achievement, quite apart from return on investment. This expectation notwithstanding, villains do prosper, organisations specialising in sharp practice are brazen in their conduct and phoenix companies continue to rise debt free from the ashes of convenient collapses. But these are not the norm. I repeat, people do still expect their civic and business leaders to be ethical, and preferably to demonstrate an exemplary standard of ethical conduct.

Whatever other accomplishments a leader might have, these cannot be quarantined from ordinary social life and deemed to be 'good' is some special sense. Friedman is wrong in believing that different standards apply to business and private life. There are many who, in times of crisis, have been lauded as successful leaders (take Bomber Harris), but of them, as of countless robber barons and business leaders, Lord Acton's backhanded compliment to Napoleon is true: "He was as great as a man could be without virtue."

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[26] Trevor Sykes, The *Bold Riders*, (St Leonards: Allen and Unwin, 1994) P. 621.