Ethical Leadership: The Nurturing of Ethical Leaders

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The chairman and chief executive officer of a national financial services firm sent a voice mail message to all employees apologizing for remarks he had made five days earlier at an investment conference. The chairman learned that employees had interpreted his "glib and insensitive response" to a question about cutbacks as contrary to the company's commitment to its employees.

"I am profoundly embarrassed about my choice of words," he said, using the voice mail as an opportunity to teach a lesson about respect, at his own expense. The chairman could have ignored the incident as "much ado about nothing" and decide that as head of the firm he could say whatever he wanted. Instead, he acted as an ethical leader, communicating openly about his own failing and apologizing.

Was he born an ethical leader? Of course not. He worked hard to act as a role model for all his employees, because he believed that ethical leadership could be nurtured.

Business ethics and ethical leadership are so intertwined it is nearly impossible to discuss or have one without the other. They are both inseparable components in the life of an organization and its ultimate success.

Why ethical leadership is important

There are many good reasons why businesses are now paying more attention to ethical leadership. Here are five:

1. With so many employees out in the field, working from home or at other diverse locations, a common organizational standard of behaviour is difficult to mandate. Hierarchical management structures are being replaced by teams, with leadership earned by personal skill rather than title. This eliminates the "because I told you so" standard of decision-making and requires that every employee attempt to be an ethical leader on his own.

2. Most organizations have their choice of prospective employees, as many qualified applicants walk through their door. Therefore they can be choosy and are looking for individuals with all three "Es": education, experience and ethics - the "whole person". They know that a major threat to a company's reputation and success can be a wrong decision made by a single employee. For that reason they seek employees who can develop both themselves and their peers as ethical leaders, helping the company to do the right thing.

3. "Empowerment" is a common term in many organizations. As employees become accustomed to making decisions on their own, they become more motivated to live up to the responsibility placed on them. One key aspect of this skill, however, is that employees must know how to make the right decision and must be willing not only to act ethically, but also to lead others as an ethical role model.

4. The parade of corporate scandals led by Enron has resulted in a lack of trust in business institutions. New regulations and more punishment will not change this lack of confidence. What is needed is a demonstrable commitment to operating our business organizations with integrity. This requires more than a "paper program" of codes of ethics and checklists of compliance. It requires leadership and accountability on the part of every person. Leaders who set the tone and the example for integrity at all levels of the business are what will change the economic climate for our financial markets.

5. Workers are among a company's most valuable assets - the capital that "walks out the door" every night. Workers sustain and renew a company and will leave if they are not convinced of the company's commitment to ethical leadership. One survey showed that 60% felt a substantial amount of work pressure and almost one half reported that, due to pressure, they had engaged in one or more unethical actions. Another survey revealed that three-fourths of those surveyed observed illegal or unethical violations at work, and 40% admitted they did not inform their employers of such violations. Ethical leadership, however, is associated with reduced unethical behaviour in the workplace, reduced employee complaints, increased employee co-operation and increased commitment to report problems to management.

What is ethical leadership?

Business ethicist Robert Solomon, among others, suggests it has three main elements and three concepts that are integral to understand.

1. Being an ethical leader is a communal enterprise - not a solitary one. Yes, you can be an ethical individual by yourself and not call attention to what you do. But ethical leadership involves relationships with others. Leadership, including ethical leadership, is
nothing without those who follow you. Those followers can be your co-workers, superiors, customers or suppliers, as well as those who work for you. They follow you as an ethical leader because of your integrity.

An essential requirement of good leadership is for leaders to evoke and elicit consensus in their constituencies - so that others say, "Yes, now I know the right thing to do." It is also important for followers to inform and influence their leaders. In this way, leadership in general, and ethical leadership in particular, is interdependent and co-operative and not just a one-way street.

2. Emotions are essential to ethics, not just logically thinking things out and obeying the rules. Don't confuse emotion with behaving emotionally, or being out of control. Instead, think about being passionate about your values and those of the company, so there is no mistaking what you believe in and how you act.

But don't confuse passion with that of being an ethical "hero", one who takes courageous action against all odds. That's not what is meant by ethical leadership. Often ethical leaders are those who are not necessarily dramatic, but those who have ethical sensitivity.

3. Ethical leadership is about offering followers a choice. It allows for legitimate debate and disagreement. If people blindly follow another individual because they have no choice or see no other alternatives open to them, that is not true leadership and certainly not ethical leadership.

What else do we need to know about ethical leadership?

First, leadership is based on trust, not on coercion or charisma. What is trust? It is a way of seeing situations and relationships. It might be described as a "mental atmosphere" without which certain actions would not occur. Without trust, we would not have communities or co-operation - and certainly no commercial transactions. Paraphrasing Warren Buffet, a prominent business leader, trust is like a mortal's need for air. And like air, when the required trust is present, it is never noticed. When it is missing, it is all that is noticed.

Second, leadership is based on values. All leaders have an agenda, a set of beliefs or values that they share with others. Ethical leadership is guided by appropriate values such as integrity, responsibility, accountability, and respect. Ethical leaders are those who inspire and motivate us to be guided by the same values they live by. In a business setting, those values are often the values of the corporation.

Finally, let's not forget the role of teaching in nurturing ethical leaders. It has been said that a leader is a teacher, empowering people with information, knowledge and perspectives.

"But I'm not a teacher," you might respond: "I couldn't get up and talk before a group."

That's not what is required. Teaching can be done by example, by one-on-one dialogue and questioning. Ethical leaders teach by living and speaking their values. Ethical leaders seek to make ethical leaders out of those around them by helping others develop their own values.

Max DePree, the former CEO of Herman Miller Corporation, has said, "The signs of outstanding leadership appear primarily among the followers." This means that those leaders have been good teachers.

Steps to nurture ethical leadership skills

The route to ethical leadership is like the way to Carnegie Hall: practice, practice, practice. We like to think that when a big moment of ethical crisis occurs, we'd respond in the right way. The truth is that we may never encounter those "big" moments. Most ethical issues start and remain small, but they can certainly grow to become a major issue if left unattended or unnoticed. Therefore, just as a baby learns to walk with small steps, we can nurture ethical leadership skills with a few behaviours that, over time, will become a natural part of our makeup.

Here are just three, from our first example of the apologetic CEO:

1. Listen to others.
2. Be open and admit mistakes.
3. Be true to your values.

Conclusion
Robert Reich, the former U.S. Secretary of Labor, has said that "The most eloquent moral appeal will be no match for the dispassionate edict of the market." In other words, in a match between the bottom line and ethics, the bottom line will prevail.

Because of the recent business scandals, the United States is rolling out a whole new regulatory environment within which to do business in hopes of better controlling our financial markets and building back trust. These new regulations are important, but only through ethical leadership will Reich's statement be disproved, not through just passing laws.

Organizations that develop ethical leadership throughout their culture will overcome barren bottom-line thinking and thereby gain a competitive edge because they will have an ethical edge.

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The Big Picture is a regular column which voices broad corporate and economic issues through extended dialogue with prominent academic and business leaders. In 2003 we present "Ethical Leadership," a 10-part series on corporate ethics, governance and leadership.

In conjunction with this series, we are please to announce The ICAA/Alberta Venture Ethics Prize, honouring the best research paper on the topics of business ethics written by a student enrolled in a post-secondary education institution in Alberta in 2003. In lieu of payment, writers of this column have donated an honorarium fee, provided by Alberta Venture and matched by the Institute of Chartered Accountants of Alberta, to fund this $5,000 cash bursary. Alberta Venture acknowledges the assistance of the Institute of Chartered Accountants of Alberta in making this project possible.

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