

COACHING MATTERS

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LEADERSHIP: FACING MORAL AND ETHICAL DILEMMAS

We need a Nobel Prize in business, awarded to organizations that demonstrate how business effectiveness (meaning survival, market share, profits, and stock value) results directly from ethical behavior. A society that is not built on ethics – on fairness, freedom, and mature hearts and minds – cannot survive for long.

Peter Koestenbaum, 2002

Last year in the U.S. alone 257 public companies with \$258 billion in assets declared bankruptcy. This was a huge increase over the previous year's record of 176 companies with \$95 billion. Big Fortune 500 companies aren't supposed to collapse, yet this year is expected to be worse.

Taking a look at what went wrong and why these companies failed reveals moral and ethical shortcomings. Many negative factors contribute to a company's demise: a bad economy, financial risks that don't pay off, accounting manipulations that seem smart at the time, loss of competitive advantage, breakdowns in execution, growing too fast, and rapidly changing market preferences. But to understand truly, one must look deeper, into the very hearts and souls of the leaders who guide corporate responsibility. One must look at the moral and ethical stance of an organization and the role of leadership in creating a culture of values.

September 11th was a tragedy that brought harsh consequences for many businesses for which one can blame terrorism. These bankruptcies, on the other hand, are more frightening in that we brought them on ourselves. True, one can point fingers at the CEO's in charge. There is no doubt that some were in a position to know when to jump ship before the rest of us.



Carole J. Parker, Ph.D.
Psychologist

**1780 Maple Street, Suite I
Northfield, Illinois 60093**

and

**30 North Michigan Avenue, Suite 1615
Chicago, Illinois 60601**

847-446-7755

drparker73@attbi.com

Dr. Parker's expertise is in executive coaching, career counseling, dual career marriage enrichment and life planning / renewal. She coaches middle managers to top executives on personal effectiveness. Currently, she is co-leading two groups of CEO's working on their leadership and life legacies.

Dr. Parker has a Ph.D. specializing in both clinical and organizational psychology. She is experienced and certified to use a number of assessment tools and intervention strategies to improve individual and team performance. Dr. Parker is an Illinois Board Registered MISA (dual diagnosis) professional and a licensed psychologist. She manages a private practice in Chicago and Northfield where she serves clients seeking counsel on executive development issues as well as personal life management concerns.

But how do large organizations get to that point virtually overnight? What creates the organizational culture that allows a house of cards to be built in the first place? What drives good leaders to make unethical choices? To assume that all of the leaders in Enron were evil, greedy and selfish is too simplistic. There is more to the story, and we must understand how such ethical violations and consequent collapses occur.

How can it happen?

In 1986 the space shuttle Challenger exploded causing the death of seven astronauts. A subsequent investigation of the culture at NASA revealed important lessons. There was not one single error that occurred, and neither did the managers intentionally commit wrongdoing. Yet it could have been prevented. The errors were years in the making. NASA engineers noticed damage to crucial O-rings yet they repeatedly convinced themselves that this level of damage was acceptable. One analyst described it as “an incremental descent into poor judgment.”

The culture at NASA was extremely success-oriented. They had hired the best of the best, and had set highly complex and sophisticated performance goals. The pressure to succeed gradually mounted until minor violations of standards became the standard. Nothing looked wrong until it was all over.

The culture at Enron was very similar. They hired the brightest from graduate schools. Success was rewarded and non-performers shunned. The emphasis was on the numbers and immediate success rather than on long-term values. There was a gradual descent into poor judgment, denial, failure to challenge the system, greed, deceit, ego, wishful thinking, poor communications and lax oversight. But it was apparent only in retrospect. No one noticed at the time as everyone was immersed in the culture.

The question to ask is not how did this happen at Enron, but how is it happening in one's own organization right now? What are the standards and how and to what degree are they communicated and reinforced? Where are standards being violated? As a leader, in what ways is one contributing to a loosening of ethical and moral values?

Is business ethics an oxymoron?

Robert Jackall (1997) suggests that the modern bureaucracy has created a “society within a society” in which there is a set of ethical standards that may not be consistent with those of the larger society. This might

help explain how certain corporate leaders could do what they did and still look at themselves in the mirror. Our current capitalistic society goes along with these sub-societies, as long as they are successful. Enron was touted as one of the most innovative organizations five years in a row by Fortune magazine. Only when there is a collapse is there a cry of “foul.”

In America, the Protestant work ethic at one time formed the basis of good business relationships. A person's word was his bond and business could be counted on with a handshake. Personal integrity and reputation mattered. But in business, there is also a “dog eat dog” mentality. Somehow, when it comes to business, there is such an emphasis on success that morals and ethics sometimes take a back seat.

The larger an organization, the more complex the strategy and operations. Thus, the easier it becomes to stretch standards and change numbers to reflect what is desired, rather than what is. Meeting the numbers seems more desirable than sticking to reality. Besides, one might reason that “reality” or “truth” is really just a question of which version, which perspective, is applied.

Here's the way one cynical executive put it: “Let's be honest. We lie and our colleagues lie to us. People prefer to tell each other what they want to hear... I don't need perfect people, I need successful people who can think for themselves and get the job done. If they need to tell a little white lie, I can live with that.”

Many corporations value stock prices and dividend and financial reports over customers, product or service quality. There is such an emphasis on the bottom line that even customer satisfaction becomes secondary. Jim Collins, in his research for his book *Good to Great*, emphasizes that sustainably successful companies are the ones that always focus on understanding and meeting customer needs. When this is done successfully, it delivers stakeholder return.

Facing ethical dilemmas: living in the gray

In business, not only are we faced with questions between right and wrong, but between *right and right*. According to Joseph Badaracco (1998), “We have all experienced situations in which our professional responsibilities unexpectedly come into conflict with our deepest values – we are caught in a conflict between right and right. And no matter which option we choose, we feel like we've come up short.”

This newsletter is intended to offer general information only and recognizes that individual issues may differ from these broad guidelines. Personal issues should be addressed with a professional familiar with the details of the problems.
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“Between right and wrong is a troublesome gray area.” – Boeing ethics poster

Research on moral standards and business ethics is sparse. Weber in 1998 found that 85.9 percent of managers claim that they draw their moral standards at work from the expectations perceived in the work environment. Trevino (1990) adds that organizational norms that are embodied by the corporation’s culture are strong determinants of individual thought and behavior in the workplace. Gillespie (1997) notes that corporate culture is recognized as a key contextual influence in establishing and maintaining norms.

The morality and ethics of the modern workplace are influenced by the leaders of the organization. There is an increasing sense of distrust of leaders’ motives since they are seen to serve shareholders and themselves, rather than the employees, the community, the environment, or even the customers! They are seen as not telling the truth, and doing whatever it takes to increase stock value.

Such erosion of trust may be pandemic. What happened at Enron and WorldCom colors all employees’ views of how leaders operate. When corporate culture is undermined by distrust, the original excitement and enthusiasm about a job turns to cynicism, alienation and disengagement. When this happens, work suffers.

Leaders have a responsibility for creating trust and cultural values

Leaders are the most important and powerful influence on the culture of an organization and are responsible for creating credibility and trust. It is obvious that employees contribute more when they are working for something they believe in. Kouzes and Posner (1987) put it well:

There is more to work than is commonly assumed. There is rich opportunity here for leaders to appeal to more than just the material rewards. Great leaders, like great companies and countries, create meaning, not just money.

The aim is to operate organizations in such a way that they achieve stated goals and do so in a manner that is consistent with the higher values of the organizational community. When employees have no clear picture of the moral or ethical stance of the organization, they tend to operate at the lowest perceived level.

Creating and promoting institutional integrity becomes one of the most important functions of leadership. Moral and ethical stances need to be consistently reiterated and clarified. One of the most pervasive issues in the

American workplace today is the injustice of corporations paying millions in bonuses to executives and haggling over pennies with salaried and hourly employees. Until this issue is addressed and adjustments made, leaders will have a hard time rebuilding trust and credibility in organizational cultures.

An analysis of the relationship between ethical behavior and effective leadership reveals that it is a matter of examining both ends and means. A business enterprise must be profitable in order to survive. Service organizations must satisfy consumers’ expectations. Government must meet the needs of its citizens. The ends are the very reason for existence of the enterprise. At the same time, the means by which they achieve those ends are increasingly important.

What can be done to foster a clear and consistent moral and ethical stance for an organization’s culture?

1. Leadership development must include programs on ethical reasoning and decision making. This must be an ongoing process, not a one-shot affair at fulfilling a requirement. The most effective leadership development programs include coaching and/or mentoring. Through executive coaching, issues of personal ethics and moral responsibility must be explored and aligned with organizational values.
2. Leadership programs must include selection, development, evaluation and rewards policies that are aligned in such a way as to reflect their support of the values of the organization. When a person is selected for promotion, or is rewarded, the organization is making a statement: this person represents our values and standards.

There are powerful economic, political, social and cultural forces at play in our lives today that may lead us to feel powerless to oppose them. It may seem easier to go along rather than to speak out. Each person must weigh alternatives and make choices in light of personal values and goals, but also with consideration to organizational and professional success.

As leaders wake up to needed reforms, there will be an increased emphasis on the need for leadership development programs that include coaching on ethical and moral values. There must be a drive for ethical responsibility if organizations are to thrive.

Never doubt that a small group of committed people can change the world; indeed, it is the only thing that ever has. — Margaret Mead

How to solve an ethical dilemma

Peter Drucker (2001) refers to the Hippocratic oath of 2500 years ago in his writing about business ethics. A professional should promise he or she will “not knowingly do harm.” He states that it is not an easy rule to live up to, but that “its very modesty and self-constraint make it the right rule for the ethics that managers need, the ethics of responsibility.”

Given that ethical and moral dilemmas present themselves on a daily basis, what do the experts say are the steps for solving an ethical dilemma? Life and business are rarely simple, and between right and wrong there is a lot of gray area.

There are two major approaches that philosophers use in handling ethical dilemmas. One is to focus on the practical consequences of what we do, and the other focuses on the actions themselves and the rightness of the action alone. The first school of thought argues “no harm, no foul.” The second claims that some actions are simply wrong in and of themselves.

Here is a three-step process for solving an ethical problem:

Step One: Analyze the consequences

Who will be helped by what you do?

Who will be harmed?

What kind of benefits and harms are we talking about? (Some are more valuable or more harmful than others: good health, someone’s trust and a clean environment are very valuable benefits, more so than a faster remote control device.)

How does all of this look over the long run as well as the short run?

Step Two: Analyze the actions.

Consider all of the options from a different perspective, without thinking about the consequences.

How do the actions measure up against moral principles like honesty, fairness, equality, respecting the dignity of others, people’s rights?

Do any of the actions “cross the line?”

If there’s a conflict between principles or between the rights of different people involved, is there a way to see one principle as more important than the others?

Which option offers actions that are least problematic?

Step Three: Make a decision

Take both parts of your analysis into account and make a decision.

Source: www.ethicsandbusiness.org/strategy.htm

The Center for Business and Ethics
at Loyola Marymount University

Carole J. Parker, Ph.D.
1780 Maple Street, Suite I
Northfield, IL 60093