Business Ethics: The Challenge of Leadership and Ethical Decision Making

Fisher College Executive Education
Breakfast Club

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Welcome

• Who I am

• What is my perspective?

• Please feel free to ask Q's
To discuss our topic, I intend three "touches" in our time today:

• Why Ethics?
• What do we mean by this Ethics "stuff"?
• And, let's see... there's processes for:
  • Strategic decision making, and long-term decision making, and...
  • Financial, HR and Personnel, IT and Systems Migration, Marketing, Legal,...decision making
  • Why aren't we discussing/analyzing/informing upon...
    • Framework for Ethical Decision Making
Most people don’t need to be taught. They need to be reminded.
Starting Assumptions at Fisher:

- Leadership development is a critical role for business schools
- Leadership is not only about:
  - Personal style
  - Learned, developed competencies, but also:
    - Values, character, integrity, and ethical reasoning
- Ethics issues pervade leadership & business decisions
- Leaders must be self-aware and know who they are:
  - Their core values
  - How their values fit within their profession/employment
  - How to "frame" and decide significant ethical issues
- In addition to cases and readings, we drill down into a variety of different strategies with students to get at these
Can you identify business or leadership Ethics issues pervading enterprises lately?

- Lance Armstrong and Livestrong
- Penn State, Air Force Academy, Catholic Church sexual misconduct scandals
- Harvard undergraduate cheating scandal
- Bank rate manipulation affecting LIBOR - UBS - $1.5 B
- Bank money laundering for drug dealers, terrorists, and Iran, among others - HSBC - $1.9 B
- Allegations and settlements of FCPA bribery - Wal-Mart in Mexico; J&J in ME; Avon in China; Microsoft, etc.
- Mortgage Crisis and Financial Collapse of 2008 ➔ Dodd-Frank
- Bernie Madoff's ponzi scheme
- Even Gibson guitar – violating exotic wood environmental bans
- US not alone - global enterprise scandals; such as in China, Taiwan, India, Spain, and England
…all of us seem to have a desire to be ethical and/or to be perceived as ethical.


Why do you think we want to be ethical and viewed by others as being ethical?
How do you think we are doing as business, government or NGO leaders?

• Any nurses or pharmacists here?
  • Just asking
• Let's check out the rest of us
  • Gallop Poll
Let's talk a bit about what we mean when we use the term "Ethics":

Prof Paine (HBS):
• Moral science

Prof's Hartman (DePaul) and DesJardins (St. Benedict and St. Johns Colleges):
• How humans beings should properly live their lives, and how we act

Prof Wicks (Darden - Univ. of Virginia):
• Originating from the Greek; “Theory of living”
• Thinking about right and wrong
Working definitions of Ethics:

Ethics is often commonly described as:
• Rules or system governing conduct
• Shared community values/principles
• *Inclusive of, but much broader than, what some in enterprises might think of "ethics", as purely compliance*

And, as distinguished from Morality:
• Our personal compass of values/principles
What then is *Business Ethics*?

Prof Paine (HBS):
• Organization's values and culture

Hartman and DesJardins:
• Application of *values* within a business context
• Process of responsible decision making

Bowen McCoy – Author of *The Parable of the Sadhu*
• The authenticity and integrity of the enterprise
• *Taking a tough line or decisional stand in a muddle of ambiguity*
Although I, along with some others in the Ethics arena, would suggest:

• The true Q is not:
  What is "Business Ethics"?

• The real Q is:
  What do you want your Ethics to be?
Have things changed in Business with regard to Ethics? - *Value Shift* - Prof Lynn Paine (HBS)

When she first examined business ethics three decades ago

- *Business Ethics? - "an oxymoron"

Businesses have shifted dramatically in recent decades in several significant ways:

- Technology
- Increased Globalization
- Heightened Competition
- Shifting Demographics
- Corporate Attention to Values/Ethics - more subtle shift
Paine - Today's Business Ethics from the many CEO's she has met with:

Changed environment, from observations and discussions with global business exec’s:

• **Less about why or should** Ethics be a part of business
• **More about how** Ethics be integrated w/i businesses
• **Q is which values and principles should guide** business decisions
• Also, a desire to avoid a “60 Minutes” event

Companies having significantly shifted, in part, because:

• Established co.'s - ***protecting*** their reputation/brand
• Entrepreneurial co.'s - ***building*** their reputation/brand
Paine's Reasons for the Value Shift in Business: Ethics = Good Business

- Risk Management
  - Avoid negative economic results of unethical activity
  - Avoid negative impact upon Stakeholders
- Organizational Functioning and Stability
  - Increase quality and commitment of Employees and Customers - "Intangible value"
- Market Positioning 🔺
  - Research shows it's better for business
- Civic Positioning within Community
  - Just the "Right thing to do"
Importance to Business and Leadership?
Trust, Loyalty, Commitment of Workforce

- 94% consider firm’s Ethics as critical to employment choice
- 82% willing to trade off lower pay to work for firm with Ethical business practices
- Est. one-third of US workers have walked off the job on the basis of ethics issues
Import to Customers

- 91% - Behavior towards customers and communities influential when making a purchase
- 74% - Want to know more about company behavior before buying
- 6 of 10 - Awareness of a company ethics affects decision-making
- 53% - Knowing that "the company donates a percentage of profits to charity and good causes" influential when considering a purchase

Age and gender split
- More under-30s ranking "ethical brand values" as a priority when spending, compared to older consumers.
- Social responsibility higher priority for women than men
Plato

Good people do not need laws to tell them to act justly, while bad people will find a way around the laws.
Let's keep in mind -
Law is not Ethics

- Ethics and Law are complimentary, but fundamentally different
  - Law is public policy, but a baseline of societal expectation
  - Law is a floor limiting action, not a ceiling of high integrity
- Law often results from past experience, rather than easily anticipates or frames future unexpected conduct
- Law has a difficult time being elastic or responding to unique circumstances
- *However, you choose to disregard law at your peril*
  - Criminal law is designed to prohibit the worst of conduct, not ensure the best of expectation
  - Law does serve as a barrier or deterrent to unethical conduct, and a standard of accountability for corruption
    - *Cuyahoga County one example*
Stephen Colbert

This is 100 percent legal and at least 10 percent ethical.
Well-implemented ethics and compliance programs reduce misconduct slightly, but an effective focus on ethical culture reduces misconduct to roughly 1/3 to 1/2 the rate of companies with weak ethical cultures.

Business First Editorial 12/28/07
Some of the connections between Ethics and Leadership:

• Three key traits of Leadership in Prof Rucci's research
  – One of three is Principle - others, Passion & Performance
• "Hallmarks" of Leadership and Emotional Intelligence (EQ)
  – Integrity
  – Self-assessment (honesty with ourselves and others)
  – Self-regulation (trustworthiness; anticipating that ethical decision making often occurs in ambiguous factual circumstances)
The "Right" course of conduct - how do we figure out what it is?

• May be obliged by the Law or Rules
• But when the rules do not control, what is our ethical course of action?
• And when facing an ethical challenge, how do we choose the best ethical decision?
  – How does our own perspective affect our choice?
  – Is there value to us to explore a diversity of perspectives?
  – What about our core values?
...life seldom presents [ethical] challenges and problems in the form of stark, either-or choices.
Decision Process Contrasts
When It Comes to Ethical Challenges:

**Issue:**
- Financial, legal, HR competitiveness, market issues and challenges
- Ethics challenge

**View:**
- Explicit and routine process
- Subject to analyses
- Often critical discussion
- Often left to instinct
- “Gut” response
- Ad hoc to the challenge

Difficulty is that we often use emotion, rather than reason, to resolve ethical issues – if we use reason, often it is to attempt to justify our action after the fact.

Prof. Mary Gentile
Giving Voice to Values – Babson/HBS/Yale

3/22/13
Paine's Ethics Decision Making Framework:

1. Facts
2. Stakeholders' impact
   - Appreciate standards and obligations
3. Maintain objectivity
4. Act transparently
Appreciating Impact on Stakeholders - Four Q’s:

• Is the action consistent with the actor's basic **duties**?
• Does it respect the **rights** and other legitimate claims of affected parties?
• Does it reflect **best practice**?
  – *(Recent presentation on the changes to OSU's College of Medicine goals and objectives for educating doctors)*
• Is it compatible with the actor’s own deeply held **commitments (core values)**?
Concrete Example of These Q's:  
West Point – Three Rules of Thumb

Does the action attempt to deceive anyone or allow anyone to be deceived?
Does the action gain or allow the gain of privilege or advantage to which I or someone else would not otherwise be entitled?
Would I be dissatisfied by the outcome if I were on the receiving end of the action?
Some of the Hurdles/Rationalizations to Ethical Decision Making:

• Slippery slope
• Victim mentality
• Everybody does it
• Cultural context - organizational and demographic "practice" or "the way things are done"
• Don’t challenge ‘authority’, obedience mentality
• "Moral muteness"
• "Moral disengagement"
• Conflicting Interests – self-interest
  • "Inappropriate" self-interest - evolutionary influence
Self-interest has a powerful tendency to disable our objectivity and befuddle our ability to live up to moral principles.
Conflicts of Interest & Self-Interest:

- Self-Interest
  - Remains an intense and inherent motivator to any leadership action
    - Can be good and bad - appreciate it's presence
  - “Inappropriate Self-Interest: A Beguiling and Unconscious Influence on Decision Making”
    - Evolutionary, self-protective instincts
    - *Why Good Leaders Make Bad Decisions and How to Keep It From Happening to You* - HBS book Sydney Finkelstein, Jo Whitehead, and Andrew Campbell
We judge ourselves by our intention, but we are judged by our last worst act.
Paine's Ethics Decision Making Framework (Adapted):

1. Facts
   - *Stop and Think*
   - *Facts are fluid; require critical inquiry & discernment*

2. Stakeholders and standards
   - *Diverse perspectives identifying ethical issues & alternatives*
   - *Respect the rules; duty, rights, best practices & commitments*

3. Maintain objectivity
   - *Self-interest +'s and -'s - requires leadership self-awareness*
   - *Need to anticipate/avoid rationalizations for unethical action*
   - *Consult expertise*

4. Act transparently
   - *Ethics can be tough - can require courage*
Institute for Business Technology & Ethics -
8 Traits of a Healthy of Organizational Culture

1. Openness (*Transparency*) throughout enterprise
2. Environment of accountability and personal responsibility
3. Freedom from risk taking w/i appropriate limits
4. “A fierce commitment” to “doing it right”
5. Willingness to tolerate and learn from mistakes
6. Unquestioned integrity and consistency
7. Pursuit of collaboration, integration, and holistic thinking – *invited creativity*
8. Courage and persistence in the face of difficulty
Leadership Ethics and Integrity Pyramid

- **Ethics & Integrity**
  - Our Values & Decisions

- **Corporate Values**
  - Compliance & Ethics Codes, Mission Statements

- **Law as a Foundation**
  - Baseline
Those are my principles.
And if you don't like them...
I have others.
Thank You!

• Thank you for your attention

• Questions?

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