



**NEWSLETTER**

**AUGUST 2009 – ISSUE 12**

## ***ETHICAL LEADERSHIP VERSUS UNETHICAL LEADERSHIP!***

*Most workers are honest, loyal, law-abiding citizens, concerned with making a living, contributing to society, and raising a family in a fair and just world. Others, though, are more selfish, concerned only about themselves with little regard for fairness and equity. Unfortunately, there are some individuals in the business world who allow the responsibilities of leadership and the perks of power to override their moral sense. A rise in the number of reports of abuse in major corporations should not be a surprise, given the increased access to unrestricted power, resources of startling proportions, and the erosion of ethical standards and values. — Dr. Paul Babiak and Dr. Robert D. Hare <sup>1</sup>*

- ☞ Enron's former chief executive Jeffrey K. Skilling was sentenced in 2006 to 24 years and four months, while onetime finance chief Andrew S. Fastow was sentenced to six years. Company founder Kenneth L. Lay died of heart disease, less than two months after a jury convicted him and Skilling of misleading shareholders and employees about Enron's mounting financial problems prior to its December 2001 bankruptcy.
- ☞ In September 2006, the former chief executive of WorldCom, Bernard J. Ebbers, drove through the gates of a U.S. federal prison to begin serving a 25-year sentence for his role in the \$11 billion accounting fraud that toppled his company.
- ☞ In May 2007, a German court convicted two former Siemens executives of bribery and ordered the company to pay a fine of 38 million euros (\$51.4 million U.S.), the first verdict in a widening corruption scandal that had engulfed this German engineering and electronics giant.
- ☞ A senior officer of the Stanford Financial Group was arrested by the F.B.I. in February 2009 on accusations of obstructing a fraud investigation by the U.S. Securities and Exchange Commission (S.E.C.). The S.E.C. had been investigating allegations of an \$8 billion fraud involving Robert Allen Stanford and his firm.
- ☞ Then of course there was most recent outcome in June 2009 of the largest, longest and most widespread Ponzi scheme in history, resulting in the conviction of Bernard L. Madoff to 150 years in prison, the maximum for his crimes.

For quite some time, picking up the *Wall Street Journal*, the *Financial Post* or the *New York Times* meant reading stories rife with indictments of CEOs, CFOs and accountants. Never in the annals of business has organizational leadership and ethics come under so much scrutiny by governments, the media and the general public. Corporate governance policies are being revisited daily, as are the methods used by organizations to compensate their top executives. Though many leaders and organizations practice good and moral principles, clearly it is time to inspect closely what it means to lead with ethics.

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<sup>1</sup> *"Snakes In Suits" (When Psychopaths Go To Work)* Dr. Paul Babiak and Dr. Robert D. Hare (Harpers Collins Publishers Inc., New York, NY, 2006)

***"Healthier organizations mean more productive employees."***

### **What is ethical behaviour?**

Ethics has a lot to do with morality and in particular with the broader values that a society cherishes. The result is that the interpretation of 'ethical behaviour' can vary among societies. As we well know, our values affect our attitudes, and in turn drive particular behavioural traits. While some actions may be technically legal in a society, they may not necessarily be deemed to be moral by that same society. For example, while some financial decisions and other transactions by leaders may theoretically be lawful in the absence of legal prohibitions or oversight, they could be considered to be immoral or corrupt in the eyes of affected clients and the general public. People, including members of an organization, normally expect their leadership to act responsibly, ethically and to refrain from advancing their 'own narrow ambitions' at the expense of others. This concept is clearly contrary to the notion that the "end always justifies the means".

*Understanding the landscape of business ethics can be problematic. The field is vast, often encompassing such concerns as corporate governance, reputation management, accurate accounting and audits, fair labor practices and environmental stewardship to name but a few. In fact, the field addresses the entire scope of responsibilities - or obligations - that a company has to each of its stakeholders: those who have a vested interest - or stake - in the decisions and actions of a company, like clients, employees, shareholders, suppliers and the community. Depending upon the company in question, one may even be able to identify additional stakeholders. — International Business Ethics Institute <sup>2</sup>*

Today, those graduating from business schools appear to be far more concerned than ever before about how corporations affect the community, the lives of workers and the environment. Business schools such as those at Harvard, Columbia, and the University of Pennsylvania are responding with more courses, new centers specializing in business ethics and, in the case of Harvard, student-lead efforts to bring about a professional code of conduct for M.B.A.'s not so unlike the oaths taken by lawyers and doctors. <sup>3</sup> However, there are those of us who believe that you cannot simply teach 'ethics' in this limited manner.

Today's leadership must treat their employees, clients and communities in an ethical way. Ethical behaviour is not only good for business and the 'bottom line' in the long term, as evidenced by the horrendous consequences of recent unethical behaviour in the financial services sector, but also for the recruitment of new graduates and clients, and the retention of existing employees and clients.

*So common has been the breach of ethics by individuals and organizations in which we have placed our collective trust that a new language has evolved to express our dismay. "Institutional betrayal" is the phrase that denotes the erosion of faith that we once placed, without question, in organizations such as police forces, schools, churches and bureaucratic organizations. As a nation, we are in the midst of an identity crisis, redefining the rules that once governed us individually and as a whole. — Dr. Marlene Carosolli. <sup>4</sup>*

### **What is the impact of unethical behaviour on organizations?**

Besides the obvious dangers of unethical behaviour in the form of prosecutions, dismissals and community disdain for the leadership and employees involved, the organization's public and business image is generally damaged. In an era when 'corporate social responsibility' is increasingly being promoted and actively practiced by organizations, be they private or non-profit, the question of ethical

<sup>2</sup> <http://www.business-ethics.org/primer.asp>

<sup>3</sup> *A Promise to Be Ethical in an Era of Immorality*, Leslie Wayne, New York Times, May 30, 2009

<sup>4</sup> *Excerpt from The Business Ethics Activity Book: 50 Exercises for Promoting Integrity at Work*, Dr. Marlene Carosolli. AMACOM Books, New York, NY, 2003

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conduct often surfaces. Unethical conduct affects an organization from top to bottom, particularly if ignored, accepted and perpetuated by senior management. As illustrated by such cases as Enron and Worldcom, unethical conduct was found to be pervasive throughout the organizations. It eventually destroyed not only each organization's 'goodwill' and the very 'existence' of the organization, but also severely damaged the lives of many employees and wellbeing of their communities.

*The president and CEO of Maple Leaf Foods said yesterday he is determined to put public health first with a massive meat recall because of an outbreak of the potentially deadly bacterium Listeria monocytogenes at a Toronto plant that has claimed four lives and made others ill. Michael McCain said in a conference call that while the recall has cost his company \$20 million in the past week, he has focused his efforts on the recall and has had little to say to Maple Leaf lawyers and accountants.*<sup>5</sup>

As illustrated by the actions of the CEO of Maple Leaf Foods during the listeriosis outbreak across Canada during the summer of 2008, the organization took immediate responsibility for events leading up to the crisis involving several unfortunate deaths nationwide. By doing so, ethical and exemplary corporate leadership was demonstrated, allowing the organization to proceed to do everything in its power to regain the public's trust and its market share. Unlike actions of other corporations under similar circumstances, while its voluntary immediate recall of all suspected tainted products may have cost the corporation millions in the short term, its conduct saved its reputation and most likely many more millions in the long run. From the outset, its CEO made it quite clear that when the implicated plant started up, no product would be released until the Canadian Food Inspection Agency and Maple Leaf Foods were fully satisfied that their new food safety protocols had proven to be effective.

The above ethical behaviour was unlike that related to 'big tobacco'. In 2006, eight defendant tobacco companies had been ruled by a U.S. Federal Judge to have violated civil racketeering laws. The Judge had also concluded that cigarette makers conspired for decades to deceive the public about the dangers of their product. The companies were ordered to make landmark changes in the way cigarettes were marketed. However, under a prior 2005 appellate court ruling, the Judge could not impose the billions of dollars in penalties that had been originally sought by the Justice Department in its civil racketeering suit against the tobacco companies. All the Judge could do was try to deter future illegal acts by the companies. To that end, the companies were ordered to stop using terms such as "low tar," "light" and "mild", and to undertake a massive media campaign in an effort to correct years of misrepresentations.<sup>6</sup> Would you want to work for 'big tobacco' or for Maple Leaf Foods?

### ***The matter of CEO compensation?***

Another contentious matter of ethical concern has arisen in the area of CEO compensation packages in North America. In January 2009, the Canadian Centre for Policy Alternatives (CCPA) released figures showing that individual total compensation packages for the top 100 CEOs at publicly listed Canadian companies increased in 2007 by an average of 22 percent to \$10.4 million. This compared to an average pay hike of 3.2 percent to \$40,237 for Canadian workers during the same period. That gap apparently was attributed to a growing economy and the increased competition among companies to attract strong leadership. Moreover, Canada's top fifty CEOs earned **398 times** more in 2007 than the average worker, compared with **85 times** more in 1995.<sup>7</sup>

In the U.S., CEOs in 1980 earned about **40 times** the salary of average workers. Twenty years later, that ratio had ballooned to more than **500-to-one**, a rate of pay that legendary Montreal fund manager Stephen Jarislowsky was already calling "obviously ridiculous" back in 2003. And yet today, the ratio sits at closer to **600-to-one**, with no apparent end in sight. Most recently, with the U.S. government

<sup>5</sup> *Meat recall cost could hit \$20M*, Jack Spearman, and Linda Nguyen, Canwest News Service, August 25, 2008

<sup>6</sup> *Big Tobacco Lied to Public, Judge Says*, Henri E. Cauvin and Rob Stein, Washington Post, August 18, 2006

<sup>7</sup> *CEO pay in Canada to come under spotlight*, Alia McMullen, Financial Post, January 02, 2009

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spending about \$700 billion to bail out faltering financial institutions, the issue of executive compensation is once again front and centre. Some of the most high-profile and highest paid CEOs have been hauled before Congress to explain why, for example, Lehman Brothers paid out millions in bonuses to senior executives days before the venerable Wall Street icon filed for bankruptcy.<sup>8</sup>

Are the current compensation provisions for senior management in large organizations ethical? Increasingly, corporate directors are as fed up with soaring CEO pay as are their shareholders. Where governments have provided funding to faltering financial and other corporations as a result the economic downturn, strict measures have begun to be mandated to limit CEO compensation packages. Questions have been raised and will continue to be raised as to executive compensation and performance as one key factor in determining reasonable executive compensation, notably in comparison to compensation offered to an organization's employees and the annual returns allocated to its shareholders.

### ***What does it mean to lead with ethics?***

In a speech to the Chartered Institute of Management Accountants (CIMA) annual conference, Philippa Foster Back, Director of the [Institute of Business Ethics](#) in London, England, called on businesses to embrace ethical behaviour. In her speech, she noted that ethical values help to set the tone of the business as well as underline consistency of conduct. "Business ethics are particularly important in the modern workplace where more people from diverse backgrounds are moving among jobs," she added. "It's very important for a company as part of risk management to be able to say to someone joining that this is how we do business around here." She further stated that business ethics can also bring competitive advantages, and went on to argue that despite lots of effort being put into ethical codes, there are still many problems. For example, in 1986, 18 percent of larger companies had a code of ethics. By 2006, it was 90 percent. However, we still see media headlines about unethical business behaviour. She claimed that one of the main reasons for this paradox is ineffective values and programs, noting that: "Few are written with the user in mind, some are collections of company policies on different issues and some are couched in 'do this or else' language".<sup>9</sup>

Leading with ethics does not simply mean issuing some form of written 'code of conduct'. Rather, it represents a broader set of moral principles which must be imbedded into the very fabric of an organization's raison d'être. Philippa Foster Back of the Institute of Business Ethics explains that the three main aspects of ethical leadership are behaviour; building trust to make effective relationships; and the attributes of courage, ability to listen, honesty, fair mindedness and openness.<sup>10</sup>

Laurie Haughey has outlined five broad standards of excellence practiced by ethical leaders. Ethical leaders

- ☞ set the standard of truth for every employee they lead;
- ☞ understand that three factors ensure an organization's global market competitiveness —a quality product, quality customer service, and quality delivery;
- ☞ need many advisors to surround themselves with answers, picking the most astute within their organizations and hiring some from other organizations;
- ☞ plan for ethical succession by allowing other leaders to surface within the company, giving potential successors opportunities to exercise and build their leadership skills; and

<sup>8</sup> *Performance not always key factor in executive compensation*, Mark Anderson, The Ottawa Citizen, November 12, 2008

<sup>9</sup> *Business ethics: Why bother?*, Philippa Foster Back, HR Zone, 27-Nov-2006

<sup>10</sup> Ibid

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- ☞ lead at the request of the company, customers, board of directors, and stockholders. If each of these entities' trust in the leader remains unchallenged, the leader should lead until he or she chooses to step down.<sup>11</sup>

As Dr. Marlene Carosolli notes in her book (see recommended reading), ethics affects all aspects of an organization, including leadership, management, workplace conduct, salesmanship, and teamwork.

### **Recommended Reading:**

- ☞ *The Business Ethics Activity Book: 50 Exercises for Promoting Integrity at Work*, Dr. Marlene Carosolli. (AMACOM Books, New York, NY, 2003)
- ☞ *Integrity Management: A Guide to Managing Legal & Ethical Issues in the Workplace*, Debbie Thorne LeClair, O.C. Ferrell and John P. Fraedrich, (Tampa, Florida, University of Tampa Press, 1998)

### **Recommended Web Sites:**

- ◆ Institute of Business Ethics in London, U.K.: <http://www.ibe.org.uk/>
- ◆ International Business Ethics Institute: <http://www.business-ethics.org/>

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<sup>11</sup> *Five Standards of Excellence Practiced by Ethical Leaders*, Workforce Management Online, November 2003

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