MORAL LEADERSHIP

THE THEORY AND PRACTICE OF POWER, JUDGMENT, AND POLICY

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A Warren Bennis BOOK

Foreword

> "The trouble with the world is that everyone has his reasons."
>
> —*Jean Renoir*

Books of readings—compendia, collections, and anthologies, that sort of undertaking—are notoriously difficult to pull off. Especially those with *original* essays. To begin with, publishers don't like them because they, er, don't sell. And mostly for good reasons: the typical anthology includes a dizzying assortment of unrelated papers fastened uneasily together by typographic artifices. We're all too familiar with the usual pitfalls: papers of uneven quality; first drafts that were never quite in shape and were gathering dust in some desk drawer; and assemblages of articles that fit uneasily, like unmatched socks. Most important, many such "readers" lack a clear and coherent conceptual armature.

Deborah Rhode's choices of authors and their seminal contributions is a relief, a startlingly fresh exception to all of the usual mishaps that beleaguer those intrepid souls who agree to undertake such a thankless task. Rhode's challenge is unusually daunting: to create a framework that is useful, balanced, objective, *and* with a carapace generous enough to address the key aspects of a topic as forebodingly complex as "moral leadership." This book—it's not bold or hyperbolic to say—will soon become required reading for anyone who wants to understand the vexing issues that inhere in this complicated topic.

As a veteran "foreword writer" who's come in from the cold, I long ago vowed that I would never write another one. The importance of this book made it an obligation. First of all, Rhode's introductory essay is a masterpiece.

With super lucidity she confronts the issues and conundrums facing this nascent field of inquiry. If some of the other essays didn't measure up to her standard, I would stop here and simply say as they do on menus, "that one alone is worth the price of admission." Well, Rhode's is, but there are many others and to mention one would imply that others weren't of the same quality; that's not the case.

There are two reasons for my enthusiasm. First, all of the authors know what they're talking about. They do not avoid complexity or try to avoid the dangerous shoals of this regularly contested terrain. Whether they dwell on the dispositional factors, as some do, or situational factors, which others do, or the systemic factors, as still others do, their eyes are wide open and make legitimate their own dubiety. Second, the values they express, indirectly or directly, comport with what our democratic institutions should be about: transparency, freedom, parity, and moral awareness of its leaders. Not only did I feel uplifted reading this book, I felt that it helped to disperse the shadows where moral leadership restlessly resides. This book should make it more difficult for leaders to hold on to the "reasons" that trouble the world.

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INTRODUCTION: WHERE IS THE LEADERSHIP IN MORAL LEADERSHIP?

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Moral leadership has always been with us, but only recently has the concept attracted systematic attention. Political philosophers dating from the early Greeks and theologians dating from the Middle Ages occasionally discussed virtue in the context of leadership.[1] However, not until the later half of the twentieth century did leadership or business ethics emerge as distinct fields of study, and attention to their overlap has been intermittent and incomplete. In the United States, it took a succession of scandals to launch moral leadership as an area of research in its own right. Price fixing in the 1950s, defense contracting in the 1960s, Watergate and securities fraud in the 1970s, savings and loans and political abuses in the 1980s, and massive moral meltdowns in the corporate sector in the late 1990s and early 2000s underscored the need for greater attention to ethics.

Moral leadership is now in a boom cycle. At last count, a Web search revealed some forty-seven thousand sites. National leaders have clamoured that “Something Must Be Done.”[2] Dutiful platitudes have been uttered, and a thriving cottage industry has been churning out courses, commissions, conferences, and consultants.

Parodies of all of the above also have been in ample supply. In the post-Watergate era, cartoonist Gary Trudeau satirized hastily assembled professional ethics courses as “trendy lip service to our better selves.” The 1980s and 1990s debacles prompted publications like *Wall Street Ethics,* which opened to nothing but blank pages. And

Enron and its disciples have generated comparable comic relief. The *New York Times Magazine* ran a mock job application for a corporate ethics officer that included multiple-choice questions such as the following:

Experience (check all that apply)

- ☐ MFA in fiction writing
- ☐ Accounting Department, Enron
- ☐ Congressman

Analogies

Please choose the best word or phrase to complete the analogy.

Shoplifting is to *accident* as *accounting fraud* is to

a. misunderstanding

b. rounding error

c. friendly disagreement

d. subject to interpretation

e. impossible

I believe that the truth is

- ☐ objective
- ☐ subjective
- ☐ for sale[3]

The *New Yorker* featured a similar spoof under the caption, "Bush, Cheney Blister Shady Business Ethics." In this account, the president displayed his customary "can-do attitude" in solving the "real problems facing American business," such as theft of hotel shampoo, soap, and sewing kits by corporate executives traveling at company expense. To combat such abuses, the president reportedly announced plans to form a “cabinet level department of Homeland Personal Toiletries.”[4]

Serious scholars have also expressed reservations about whether there is any “there” in the moral leadership literature. In evaluating the field of leadership studies during its early years, one of its most prominent experts, Warren Bennis, observed that “more has been written and less is known” than on any other topic in the social sciences.[5] While that may no longer be true about the discipline generally, the subdiscipline of moral leadership remains an academic backwater. One recent survey of some eighteen hundred articles in psychology, business, religion, philosophy, anthropology, sociology, and political science found only a handful that addressed leadership ethics in any depth.[6] Few of those articles, or the books recently released on this topic, are informed by relevant research outside their field. Publications written by and for managers have typically been at best superficial and at worst misleading, littered with vacuous platitudes and self-serving anecdotes. Many of the all-purpose prescriptions marketed in the popular press are at odds with the limited scholarship that is available.

Given the centrality of ethics to the practice of leadership, it is striking how little systematic research has focused on key questions.[7] How do leaders form, sustain, and transmit moral commitments? Under what conditions are those processes most effective? What is the impact of ethics officers, codes, training programs, and similar initiatives? How do norms and practices vary across context and culture? What can we do at the individual, organizational, and societal levels to foster moral leadership?

To assist inquiry along these lines, this Introduction surveys the state of moral leadership literature. It aims to identify what we know, and what we only think we know, about the role of ethics in key decision-making positions. The focus is primarily on leadership in business contexts, because that is where most work has been done and where the need in practice appears greatest. However, the overview that follows also draws on research from related fields and offers insights applicable to other organizational contexts. Part One explores definitions of moral leadership, and Part Two chronicles the increasing recognition of its importance. Part Three analyzes the circumstances under which "ethics pays," and Part Four examines the individual and contextual factors that influence ethical conduct. Part Five identifies strategies of moral leadership, and Part Six concludes with proposals to promote it. This overview offers a sense of what is missing in both the theory and practice of moral leadership and what is necessary to fill the gaps.

Moral Leadership Defined

A central difficulty plaguing analysis of leadership in general, and moral leadership in particular, is the lack of consensus on what exactly it means. A related problem is the failure even to recognize that such definitional incoherence is a problem. One comprehensive review of twentieth-century publications on leadership found that two-thirds did not even bother to define the term.[8] The difficulties are compounded when, as is usually the case, qualifications like "moral," "ethical," or "value-driven" are also left undefined.[9]

One reason that much of the literature simply bypasses definitional issues may be that authors assume some long-established common core of meaning. "To lead" comes from the Old English word *leden* or *loedan,* which meant "to make go," "to guide," or "to show the way," and the Latin word *ducere,* which meant "to draw, drag, pull, guide, or conduct."[10] Although popular usage sometimes conflates leadership with status, power, or position, scholars generally draw distinctions among them. Leadership requires a relationship, not simply a title; leaders must be able to inspire, not simply compel or direct their followers.

Most leadership literature also assumes a commonsense understanding of key value-laden terms. *Ethics* is generally traced to the Greek words *ethikos,* which means pertaining to custom, and *ethos,* which refers to character. *Morality* comes from the Latin word *mores,* which refers to character, or custom and habit. Philosophers often use *ethics* when discussing the study of morality and *morality* when discussing general principles of right and wrong. However, in both popular usage and work on leadership, the terms are largely interchangeable, and that convention will be followed here. To be "moral" or "ethical," as commonly understood, is to display a commitment to right action. That generally includes not only compliance with law but also with generally accepted principles involving honesty, fair dealing, social responsibility, and so forth.

Yet while there may be substantial consensus about the core meanings of moral leadership at the abstract level, there is far less agreement about what they mean in practice. Dispute centers around several key issues. What constitutes effective leadership? Does all leadership, or all effective leadership, have an ethical content? How should the moral dimensions of leadership be defined and assessed? To what extent are there shared understandings of ethically responsible behavior in contexts where values are in conflict?

Ethics and Effectiveness

Innumerable models have come and gone, and each generation rediscovers and recasts many of the same concepts.[11] Some frameworks stress the traits of leaders, others the relationship with followers. The past quarter-century has witnessed the rise, fall, and occasional resurrection of transactional leadership, transformational leadership, charismatic leadership, authentic leadership, autocratic leadership, steward leadership, servant leadership, collaborative leadership, laissez-faire leadership, and value leadership. What is striking about this literature is how little has traditionally focused on ethics. The gaps are apparent in the field's most encyclopedic overview, Bass and Stogdill's *Handbook on Leadership*; this 1990 handbook on leadership runs over nine hundred pages, but only five have indexed references to ethics. None of the book's thirty-seven chapters centers on moral issues.[12]

Although more recent overviews find somewhat greater attention to ethics, there is surprisingly little systematic analysis of a key issue: whether all leadership has a moral dimension. To borrow Machiavelli's classic formulation, can one be a "good" leader in terms of effectiveness without being a "good" leader in terms of morality? The limited leadership commentary that focuses on this question stakes out a range of views.

The first is that leadership is inescapably "value-laden": "all leadership, whether good or bad, is moral leadership at the descriptive if not the normative level."[13] In the most relevant empirical study to date, about half of surveyed business executives agreed that ethically neutral leadership was impossible.[14] Yet while virtually no commentators dispute the fact that ethical views shape the means and ends of leaders, this is not the sense in which "moral" leadership is commonly understood. In conventional usage, *moral* conveys "morally justified." And a purely descriptive account leaves the interesting definitional question unanswered: can leadership be successful without being moral in a more demanding, prescriptive sense?

On this issue, commentators divide. An increasingly common position, encountered in both scholarly and popular literature, is that the essence of effective leadership is ethical leadership. The first prominent theorist to take this view was historian James McGregor Burns. In his 1978 account, *Leadership,* Burns distinguished between transactional and transformational leadership. The first involves an exchange relationship between leaders and followers, who cooperate on the basis of self-interest in pursuit of mutual gains. By contrast, in transformational leadership, leaders and followers "raise one another to higher levels of motivation and morality," beyond "everyday wants and needs." They aspire to reach more "principled levels of judgment" in pursuit of end values such as liberty, justice, and self-fulfillment.[15] Similarly, John Gardner, in *The Moral Aspect of Leadership,* argued that leaders should "serve the basic needs of their constituents," defend "fundamental moral principles," seek the "fulfillment of human possibilities," and improve the communities of which they are a part.[16] To Gardner, like other contemporary commentators, men such as Hitler and Stalin can be considered rulers but not leaders.[17]

Many scholars see this definition as too limiting. Some argue that effective leadership requires morality in means, although not necessarily in ends. Underlying this distinction is the assumption that widely shared principles are available for judging process but no comparable consensus exists for judging objectives. According to this view, leadership cannot be coercive or authoritarian, but it can seek ends that most people would regard as morally unjustified.[18]

Yet this distinction is inconsistent with conventional understandings and not particularly helpful for most purposes. As Bennis notes, “People in top positions [can often be] doing the wrong thing well.”[19] “Like it or not,” others point out, Hitler, Stalin, and Saddam Hussein were animated by a moral vision and were extremely effective in inspiring others in its pursuit.[20] In her recent account, *Bad Leadership,* Barbara Kellerman similarly suggests that it is unproductive to exclude from definitions of leadership those whose means or ends are abhorrent but nonetheless effective, and therefore instructive. As she puts it, “How can we stop what we don’t study?”[21]

Values-Based Leadership

A similar point could be made about controversies over the ethical dimensions of “values-based” leadership. Although the label is relatively recent, the concept is longstanding.[22] In essence, as Philip Selznick’s classic 1957 study put it, leaders must be “experts in the ‘protection of values.’”[23] Contemporary commentators on management generally agree and emphasize the need to build a shared mission that extends beyond financial achievement.[24] For example, Thomas Peters and Robert Waterman’s study of high-performing businesses concludes that the primary role of top executives is to “manage the values of the organization.”[25] Successful leadership requires infusing employees’ “day to day behavior with long-run meaning” and inspiring commitment to a “grand vision” about quality, service, and excellence.[26] Yet most of the values literature skirts the central questions. How are values determined and transmitted? Under what circumstances are those processes effective? To what extent do the values have an explicitly ethical content?

In its early original formulation, the concept of values-based leadership had crucial moral dimensions. However, as it has been popularized and adapted to the management context, those dimensions have often been eclipsed by more pragmatic concerns. One representative survey of corporate value statements found that about three-quarters mentioned ethics or integrity, but generally accompanied by other missions such as customer satisfaction, accountability, profitability, innovation, and teamwork.[27] And much of the discussion of "excellence" in values commentary carries little moral content. What is left is leadership ethics without the ethics. In a sense, the trend resembles what has sometimes happened with the concept of leadership more generally as it has acquired increasing corporate cachet. The result is epitomized by the billboard for a southern California restaurant: "Seafood Leadership: Anthony's Fish Grotto."[28]

Moreover, even commentators who see an ethical dimension to values leadership often discuss it in only the most perfunctory and platitudinous terms. Publications aimed at managerial audiences frequently just list a few key qualities that have "stood the test of time," such as integrity, honesty, fairness, compassion, and respect, without acknowledging any complexity or potential conflict in their exercise.[29] Other commentators simply add "moral" as an all-purpose adjective in the mix of desirable characteristics: leaders should have "moral imagination," "moral courage," "moral excellence," and, of course, a "moral compass."[30] Homespun homilies abound:

- "Lead with your heart."
- "Be true to core values."
- Recognize that "moral judgment is not a luxury."
- "Value integrity."

- Create a “climate of goodness.”
- “Be an evangelist selling the mission of honorable ethical conduct.”
- “Trust yourself and others will trust you too.”
- Show “commitment to integrity, which beyond doing everything right, means doing the right thing well.”[31]

Trade press publications sometimes attempt to spruce up the sermonizing with catchy historical allusions: *If Aristotle Ran General Motors* and *Leadership Secrets from Attila the Hun.*[32] Or they include words to live by from great philosophers, Chinese proverbs, and favorite fortune cookies.[33] It is hard to imagine that anyone finds much of actual use in these truisms. Part of the problem is that few of the publications marketed to leaders make any concessions to complexity. Only rarely does a note of realism creep in, typically by way of acknowledgment that reconciling priorities may be difficult or that most people, including leaders, act from mixed motives, not all of them disinterested.[34] But rarer still are any real insights about how to strike the appropriate balance among competing concerns. When examples are given, they generally appear as stylized, often self-serving morality plays in which virtue is its own reward and dishonesty does not pay.[35] The party line is that violating “timeless values” is always wrong, “pure and simple.”[36] In this uncomplicated leadership landscape, the “right thing for business and the right thing ethically have become one in the same.”[37]

Would that it were true. But the leadership literature by and for leaders is generally not much interested in evidence, only anecdotes. In the conventional narrative, when abuses occur, the problem is one of “flawed integrity and flawed character”; top managers are sending the wrong moral messages and failing to align practice with principle.[38] Although the underlying assumption is that leaders' personal values are critical in shaping subordinates' conduct, this literature offers no systematic evidence about how values are conveyed and interpreted or what makes the process effective.[39] The research we do have paints a much more complicated portrait than the mainstream commentary conveys.

The discussion that follows focuses on this process of moral leadership, using the term in its colloquial sense of exercising influence in ways that are ethical in means and ends. In essence, the point is that however definitional issues are resolved, effective leadership requires a moral dimension too often missing or marginal in American business and professional organizations.

The Historical Backdrop and Current Need for Moral Leadership

Although the need for moral leadership is longstanding, only in the past half-century has that need given rise to formal ethics initiatives.[40] And despite a recent flurry of efforts, fundamental challenges remain.

The Emergence of Ethics Initiatives

A few corporations began adopting internal codes of conduct early in the twentieth century, but it was not until a sequence of scandals, starting in the 1960s, that interest in business ethics and corporate social responsibility gained significant attention. By the mid-1980s, repeated exposés of fraud and corruption among American defense contractors led to the creation of the Defense Industry Initiative; its participants established ethical compliance programs that eventually became models for other corporate sectors.[41] During the 1970s and 1980s, the need for such programs became increasingly apparent, given recurrent waves of securities fraud, insider trading, international bribery, antitrust violations, environmental hazards, unsafe products, and related abuses. One representative survey of America's largest corporations in the early 1990s found that two-thirds had been involved in illegal activities over the preceding decade.[42]

In 1991, the U.S. Sentencing Commission responded to such patterns by substantially increasing fines for organizational crimes, but permitting reduced penalties if the defendant had adopted "effective programs for preventing and detecting" wrongful behavior.[43] This initiative, together with the enormous legal expenses and reputational damage that often accompanied criminal and civil liability proceedings, intensified pressure for reforms. By the turn of the twenty-first century, about 75 to 80 percent of surveyed companies and 90 percent of large corporations had ethical codes, up from 15 percent in the late 1960s. About half of all businesses provided formal ethics training.[44] A third also had ethics officers, and the percentage increased to over half among Fortune 500 companies after another spate of Wall Street scandals in the early twenty-first century.[45]

Corporate Social Responsibility

A parallel and partly overlapping development has involved corporate social responsibility. The term had its origins in a 1953 book by Bowen, *Social Responsibilities of the Businessman,* and over the next several decades, it came to encompass a broad range of initiatives.[46] According to the global organization Business for Social Responsibility, the concept involves "operating a business enterprise in a manner that consistently meets or exceeds the ethical, legal, commercial and public expectations society has of business."[47] By this definition, corporate social responsibility encompasses multiple strategies concerning governance, philanthropy, product safety, health and labor standards, the environment, and related issues. A wide variety of nongovernmental organizations has emerged to monitor organizational performance along these dimensions and to provide standards for socially concerned investors. A recent Web search revealed over thirty thousand sites for corporate social responsibility.[48]

By the end of the twentieth century, in the United States alone, close to 150 mutual funds, with almost $100 billion in assets, invested only in "socially responsible" companies. Several times that number of funds used some "social screens" and either avoided companies that marketed certain products (such as tobacco or firearms) or favored businesses that met specified standards on matters of ethical concern. Altogether an estimated $1.1 trillion of the $13 trillion in funds under professional management in the United States reflect some consideration of corporate social responsibility.[49]

Business Ethics: Competing Perspectives on the Problem

Although compliance with legal and ethical obligations can be viewed as one aspect of corporate social responsibility, business leaders generally distinguish between them and place more emphasis on compliance. In one poll, senior executives at American-based multinational companies were asked to evaluate their organization on a variety of dimensions. Over 90 percent rated their corporations' "business ethics" as excellent or good. About half gave similar ratings to social or environmental impact.[50]

Whether disinterested observers would give the same high rankings to business ethics is open to doubt. Empirical evidence is mixed. In a Gallup poll on public confidence in some twenty major institutions taken around the same time as the executive survey, Americans rated “big business” second to last. Only about a fifth expressed high levels of confidence, which placed large corporations lower than Congress and organized labor.[51] In other recent polls, close to half of Americans said they had “not much trust” or “no trust” in large U.S. companies, and almost three-quarters believed that wrongdoing was widespread.[52] Only 10 percent thought that current rules designed to promote responsible and ethical corporate behavior were working “pretty well”; almost half thought they needed “major changes” or a “complete overhaul.”[53]

Public perceptions of business leaders are similar, although many employees seem to view their own company’s CEO as an exception. In one national 2002 survey, only a quarter of Americans viewed top executives as honest.[54] In another 2004 poll, when asked, “How much of the time do you think you can trust the executives in charge of major companies in this country to do what is right?” only 1 percent said “always,” and only a fifth said “most of the time”; about a quarter said “almost never.”[55] When it comes to their own organization’s leaders, assessments are more favorable, but not uniformly positive. About 90 percent of those responding to a large 2003 Ethics Resource Center survey felt that their organization’s leader set a good example of ethical behavior; 85 percent said that honesty was practiced frequently and that employees were held accountable for ethics in their workplace.[56] By contrast, in another 2004 survey of some fifteen hundred workers, almost half said that their company’s leaders did not lead by example.[57]

These assessments are, of course, highly subjective and may often be skewed by highly salient but atypical events, as well as other well-documented response biases. Many workers have little reliable information about top executives' day-to-day conduct, and those who feel loyal to their organization are likely to view its leadership in the most favorable light.[58] Efforts to provide more objective evidence of corporate ethics have been plagued by multiple methodological difficulties. Corporations have been understandably wary of granting access to information that would reveal wrongdoing, and employee reports of others' misconduct yield widely varying results. In one survey at the turn of the twenty-first century, three-quarters of workers had observed violations of the law or company standards during the previous year.[59] By contrast, an Ethics Resource Center study from around the same time found that only a third of employees had observed misconduct. When that study was repeated in 2003, the percentage had dropped to 22 percent. Only 10 percent reported pressure to engage in unethical activity.[60] Yet even that survey, which offered the most positive findings of recent studies, found some grounds for concern. Almost half (44 percent) of employees who observed misconduct did not report it, largely out of concerns that a report would do no good or not remain confidential, or that they would suffer retaliation and be viewed unfavorably by coworkers.[61]

Other empirical research also suggests too wide a gap between professed commitments to ethical integrity and actual workplace practices. For example, one recent survey of executive members of the American Management Association found that about a third believed that their company's public statements on ethics sometimes conflicted with internal messages and realities. Over a third indicated that although their company would follow the law, it would not always do what would be perceived as ethical.[62] In another study involving responses to hypothetical fact situations based on Securities and Exchange Commission cases, almost half of top executives expressed a willingness to make fraudulent financial statements under at least some circumstances.[63] The consequences of such attitudes are not just hypothetical. Business and professional leaders' involvement in recent corporate misconduct contributed to losses in shareholder value estimated as high as $7 trillion.[64]

Societal Interests and the Limits of Regulation

Shareholders' economic interests are only part of society's enormous stake in the moral leadership of business and professional organizations. These organizations shape the quality of our lives across multiple dimensions, including health, safety, jobs, savings, consumer products, and the environment. As leading economic and legal theorists have long noted, neither market forces nor regulatory strategies are a full substitute for ethical commitments that leaders can help institutionalize in organizational cultures. Amartya Sen and Kenneth Arrow have both underscored the dependence of markets on shared moral expectations and behaviors.[65] Economic institutions depend on mutual confidence in the honesty and fair dealing of multiple parties. Yet market forces provide inadequate protection against free riders: those who seek to benefit from general norms of integrity without observing them personally. Market processes also provide insufficient correctives for information barriers and social externalities. If, for example, consumers lack cost-effective ways to assess the quality of goods, services, and investment opportunities, sellers may lack adequate incentives to meet socially desirable standards. So too, the public often bears unwanted external costs from transactions that parties find advantageous. Environmental hazards are the most obvious example: the past quarter-century provides ample accounts of the enormous health, safety, and aesthetic costs of socially irresponsible organizational behavior.

Legal regulation is a necessary but not sufficient response. Legislatures and government agencies often have inadequate information or political leverage to impose socially optimal standards. Industry organizations frequently exercise more influence over regulatory processes than unorganized or uninformed stakeholders do. Oversight agencies may also be uninformed or understaffed, or captured by special interests.[66] Enforcement may be too costly or penalty levels that are politically acceptable may be too low to achieve deterrence.[67] Where regulation falls short, the health and financial consequences can be irreversible. The problem is particularly acute in countries that lack the economic or governmental strength to constrain powerful global corporations. And the inability of these nations to impose appropriate health, safety, labor, and environmental standards affects many outside their borders. In an increasingly global market, it is difficult for countries that have socially desirable safeguards to compete with countries that do not. It is also impossible for nations that accept the costs of such requirements to escape the environmental degradation caused by others that are unwilling or unable to do the same.

In this world of imperfectly functioning markets and regulatory processes, the public interest in self-restraint by socially responsible corporate leaders is obvious. What is less obvious is the extent to which corporations’ own interests point in similar directions and what can be done to insure a closer alignment.

Doing Good and Doing Well: When Does Ethics Pay?

"Ethics pays" is the mantra of most moral leadership literature, particularly the publications written by and for managers. *If Aristotle Ran General Motors* offers a representative sample of reassuring homilies: a "climate of goodness will always pay," "you can't put a simple price on trust," and "unethical conduct is self-defeating or even self-destructive over the long run."[68] A dispassionate review of global business practices might suggest that Aristotle would need to be running more than GM for this all to be true. But no matter; in most of this commentary, a few spectacularly expensive examples of moral myopia will do: companies that make "billion-dollar errors in judgment" by marketing unsafe products, fiddling with the numbers in securities filings, or failing to report or discipline rogue employees.[69] The moral of the story is always that if "values are lost, everything is lost."[70]

Even more hard-headed leadership advice is often tempered with lip-service to the cost-effectiveness of integrity and reminders that profits are not an end in themselves. "The top companies make meaning, not just money," Peters and Waterman assure us.[71] Jack Welch, a CEO best known for his pursuit of profits, not ethics, similarly insists that "numbers aren't the vision, numbers are the product." Although they cannot be disregarded, they should not achieve "such priority that [leaders] fail to deliver on the things that matter to the company in the long run—its culture . . . its values."[72] In fact, that is useful advice, and had he followed it, his record might have been less mixed.[73] But when and whether ethics pays is much more complicated than moral leadership commentary generally suggests.

Corporate Social Responsibility, Ethical Conduct, and Financial Performance

A wide range of studies have attempted to address the "value" of values. The most systematic research seeks to assess the correlation between corporate social responsibility and financial performance. Such efforts have been complicated by the absence of any consistent, standardized measures of social responsibility. The concept encompasses a wide range of conduct, and there are no widely shared methodologies for comparing businesses' records on many dimensions such as diversity, community relations, philanthropy, and environmental stewardship.[74] Moreover, correlations do not establish causation, and any documented relationships between financial and social performance may run in either or both directions. In some cases, profitability may drive benevolence: companies that are doing well have more resources to invest in doing good. Alternatively, attention to moral values may improve financial performance by improving relations with various stakeholders: employees, customers, suppliers, and community members. These factors also may be interrelated and mediated by other variables. Social performance could be both a cause and consequence of financial performance, but the strength of either relationship could be significantly affected by additional industry-specific factors.[75]

Despite these methodological complications, the overall direction of research findings is instructive. Some studies have compared the social performance of companies with high and low financial returns.[76] Other surveys have looked for relationships between social and financial performance among all Standard and Poor 500 companies.[77] Although results vary, few studies find a purely negative correlation. In one overview of ninety-five surveys, only four found a negative relationship, fifty-five found a positive relationship, twenty-two found no relationship, and eighteen found a mixed relationship.[78]

A similar pattern emerges from qualitative and quantitative research that addresses the impact of specific ethical behaviors on financial results or on measures likely to affect such results, such as employee relations and public reputation. The vast majority of these studies find significant positive relationships. For example, companies with stated commitments to ethical behavior have a higher mean financial performance than companies lacking such commitments.[79] Employees who view their organization as supporting fair and ethical conduct and its leadership as caring about ethical issues observe less unethical behavior and perform better along a range of dimensions; they are more willing to share information and knowledge and “go the extra mile” in meeting job requirements.[80] Employees also show more concern for the customer when employers show more concern for them, and workers who feel justly treated respond in kind; they are less likely to engage in petty dishonesty such as pilfering, fudging on hours and expenses, or misusing business opportunities.[81] The financial payoffs are obvious: employee satisfaction improves customer satisfaction and retention; enhances workplace trust, cooperation, and innovation; and saves substantial costs resulting from misconduct and surveillance designed to prevent it.[82]

Such findings are consistent with well-documented principles of individual behavior and group dynamics. People care deeply about “organizational justice” and perform better when they believe that their workplace is treating them with dignity and respect and ensuring basic rights and equitable reward structures.[83] Workers also respond to cues from peers and leaders. Virtue begets virtue, and observing moral behavior by others promotes similar conduct.[84] Employers reap the rewards in higher morale, recruitment, and retention.[85] A number of studies have also found that employee loyalty and morale are significantly higher in businesses that are involved in their communities and that corporate giving levels correlate positively with public image and financial performance.[86]

Ethical Reputation and Financial Value

A reputation for ethical conduct by leaders and organizations also has financial value. Most obvious, it can attract customers, employees, and investors and can build good relationships with government regulators.[87] Survey data from the United States and abroad also reveal that most individuals believe that companies should do more than simply make a profit, create jobs, and obey the law. In one international poll, two-thirds agreed that businesses should set high ethical standards and contribute to broader social goals; a quarter reported rewarding or punishing a company for its social performance.[88] Representative surveys of American consumers find that between one-third and two-thirds say that they seriously consider corporate citizenship when making purchases, and a quarter recall boycotting a product because of disapproval of the company's actions.[89]

The reputational penalty from engaging in criminal or unethical conduct can be substantial and can dramatically affect market share and stock value.[90] According to some research, most of the decline in shareholder value following allegations or proof of illegal behavior reflects damage to reputation, not prospective fines or liability damages.[91] A substantial body of research also suggests that the goodwill accumulated by doing good can buffer a company during periods of difficulty resulting from scandals, product or environmental hazards, or downsizing.[92]

A celebrated case in point is Johnson & Johnson's decision to recall Tylenol after an incident of product tampering. It was a socially responsible decision that was highly risky in financial terms; pulling the capsules cost more than $100 million, and many experts at the time believed that it would doom one of the company's most profitable products. But Johnson & Johnson's reputation for integrity, reinforced by the recall decision, maintained public confidence, and the product bounced back with new safety features and no long-term damage.[93] Examples of unhappy endings also abound. A notorious example of a public relations disaster that could have been averted was Royal Dutch Shell's decision to sink an obsolete oil rig with potentially radioactive residues in the North Sea despite strong environmental protests. The adverse publicity and consumer boycotts took a huge financial toll.[94]

When Ethics Doesn't Pay: The Case for Values

Such examples are not uncommon. Business ethics textbooks offer countless variations on the same theme. But the reasons that the examples are so abundant also point out the problems with "ethics pays" as an all-purpose prescription for leadership dilemmas. As Harvard professor Lynn Sharp Paine puts it, a more accurate guide would be "ethics counts."[95] Whether doing good results in doing well depends on the institutional and social context. The "financial case for values," Paine notes, is strongest when certain conditions are met:

- Legal and regulatory systems are effective in enforcing ethical norms.

- Individuals have choices in employment, investment, and consumption and are well informed concerning those choices.
- The public expects organizations to operate within an ethical framework.[96]

Berkeley professor David Vogel adds that virtue generally makes economic sense on corporate social responsibility issues only when the costs are relatively modest.[97] In short, when "ethics pays," it is generally because the public wants it to and because leaders in business, government, and the professions have designed effective incentive and compliance systems.

It is, however, naive and misleading to suggest that these systems are always in place.[98] It is also self-defeating. To make the case for "values" turn solely on instrumental considerations is to reinforce patterns of reasoning that undermine ethical commitments. We respect moral conduct most when it occurs despite, not because of, self-interest. Moreover, to view corporate charitable contributions as requiring a financial payoff can distort philanthropic priorities. This attitude is what leads some business leaders to use corporate giving as a form of social currency that buys them status or perks like seats on prestigious nonprofit boards and preferential treatment at splashy charitable events.[99] The demand for "value added" from corporate donations has also led certain companies with poor reputations to spend more on advertising their good deeds than on the donations themselves.[100]

Ultimately what defines moral behavior is a commitment to do right whether or not it is personally beneficial. What defines moral leadership is adherence to fundamental principles even when they carry a cost. Our challenge as a society is to find ways of minimizing these costs and reinforcing such leadership. That, in turn, will require a clearer understanding of the dynamics of moral conduct.

Individual and Contextual Dimensions of Moral Conduct

By definition, moral leadership involves ethical conduct on the part of leaders, as well as the capacity to inspire such conduct in followers. Any adequate account of the foundations of moral leadership accordingly requires an account of the influences on moral behavior. This is a subject of considerable complexity, and one on which the leadership literature is especially unsatisfying. Recent work in psychology generally suggests that moral conduct is a function of the interplay of individual personality and social influences. However, moral leadership commentators seldom draw from research on these reciprocal influences in any integrated and systematic way. Some scholars simply borrow from one body of work, such as cognitive development, cognitive bias, or organizational psychology. Others ignore these disciplines altogether or eclectically invoke a few selected theorists.

The following discussion offers a more comprehensive overview. Although a full exploration of the topic is beyond the scope of this survey, it is possible to identify the major individual and contextual dimensions of ethical leadership.

Moral Character and Moral Decision Making

Moral and religious philosophers since Aristotle have generally assumed the existence of fixed character traits that are largely responsible for ethical and unethical behavior.[101] Much of the widely read work on moral leadership shares that assumption. A recurrent theme is that “character is the defining feature of authentic leadership" and that most recent problems are a "function of flawed integrity and flawed character."[102] The perception that personality traits are consistent, deeply rooted, and responsible for ethical conduct reinforces our sense of predictability and control. It is also consistent with a widely documented cognitive bias that psychologists label the "fundamental attribution error": our tendency to overvalue the importance of individual character and undervalue the role of situational factors in shaping behavior.[103] Yet social science research makes clear that many such assumptions about personality traits are a "figment of our aspirations."[104] As discussion below indicates, moral conduct is highly situational and heavily influenced by peer pressures and reward structures.[105]

Although the importance of personal qualities should not be overstated, neither should their role be overlooked. Individuals vary in their approach toward ethical issues in ways that matter for understanding leadership. In his influential analysis of moral development, psychologist James Rest identified four "components of ethical decision making":

- Moral awareness: recognition that a situation raises ethical issues
- Moral reasoning: determining what course of action is ethically sound
- Moral intent: identifying which values should take priority in the decision
- Moral behaviors: acting on ethical decisions[106]

Moral Awareness and Ethical Culture

Moral awareness, the first element, reflects both personal and situational factors. One involves the moral intensity of the issue at stake. Intensity is, in turn, affected by both social consensus about the ethical status of the acts in question and the social proximity of their consequences.[107] When issues arise in workplace contexts, it is the degree of consensus in these settings that has the greatest influence on moral awareness.[108] Organizations that place overwhelming priority on bottom-line concerns encourage individuals to "put their moral values on hold."[109] Such workplace cultures may help account for the large numbers of surveyed managers and professionals who claim never to have faced a moral conflict.[110]

A second influence on moral awareness involves the "feeling of nearness (social, cultural, psychological, or physical)" that the decision maker has for victims or beneficiaries of the act in question.[111] Individuals' capacity for empathy and their sense of human or group solidarity positively affect ethical sensitivity, which encourages altruistic action and receptiveness to principles of justice, equality, and fairness.[112] Conversely, peoples' capacity to distance, devalue, or dehumanize victims leads to moral disengagement and denial of moral responsibility.[113] These capabilities are themselves influenced by childhood socialization, religious and political commitments, direct exposure to injustice, and educational approaches that build awareness of others' needs.[114]

A wide array of quantitative and qualitative research also demonstrates the effect of workplace cultures on ethical sensitivity. Two widely reported case studies are Sunbeam under the leadership of "Chainsaw" Al Dunlop and Enron under the direction of Kenneth Lay, Andrew Fastow, and Jeffrey Skilling. Dunlop was notorious for moral myopia in defining the company's vision and moral callousness in carrying it out. In his view, the notion of ethical responsibility to stakeholders such as employees, customers, suppliers, or local community residents was "total rubbish. It's the shareholders who own the company."[115] Consistent with that view, Dunlop subjected subordinates to abusive working conditions, punishing schedules, and unrealistically demanding performance expectations; "either they hit the numbers or another person would be found to do it for them."[116] This bottom-line mentality did not ultimately serve the bottom line. Sunbeam ended up in bankruptcy, and Dunlop ended up settling a civil lawsuit by paying a $500,000 fine and agreeing never to serve again as an officer or director of a major corporation.[117] So too, Enron's plummet from the nation's seventh largest corporation to a bankrupt shell has been partly attributed to its relentless focus on "profits at all costs."[118] The message conveyed by corporate leaders was that accounting and ethics rules were niceties made to be stretched, circumvented, and suspended when necessary.[119] Those who advanced were those able to "stay focused" on corporate objectives "unburdened by moral anxiety."[120]

Moral Reasoning, Situational Incentives, and Cognitive Biases

Rest's second key element in moral leadership is moral reasoning. Individuals vary in their analysis of moral issues, although here again, context plays an important role. The most widely accepted theory of moral reasoning, developed by Harvard psychologist Lawrence Kohlberg and adapted by many others, posits three primary stages. At the preconventional stage, people analyze right and wrong in terms of rewards and punishment, and attempt to further their own self-interests. At the conventional stage, people focus on what is socially acceptable and seek to avoid disapproval, dishonor, and guilt. At the postconventional stage, people base judgments on abstract principles that