

# Mastering ethical business leadership

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## OVERVIEW

In order to promote an ethical culture within a business, it must be fostered from the top of the management hierarchy. Every business leader needs to consider what it takes to be an ethical leader and to lead an ethical business. Despite the general consensus that businesses should be run ethically, many organisations are still failing to meet these standards.

This article considers why businesses fail to be ethical and examines the leadership which is needed to run an ethical business.

## FEATURED INTERVIEWEE



**Frank Bucaro**

Values-based leadership expert, Frank Bucaro & Associates

*“Why do we continue to see headlines about breaches of ethical standards? The answer is arguably two-fold: failed leadership and the lack of moral awareness.”*

## LEARNING OBJECTIVES

After reading this article you should be able to:

- › Outline potential ethical leadership challenges for business.
- › Explain the concept of moral awareness.
- › Outline the six steps to being ethically proactive.

## KNOWLEDGE AREAS AND ACCREDITATION

Knowledge area: Ethics (30 minutes).

FPA CPD points 0.5 Dimensions: Professional Conduct (FPA 005820).

AFA CPD points 0.5 (AFA 01022009).

FBAA CPD points 0.5.

SPAA CPD points 0.5.

## WHY BUSINESSES STRUGGLE WITH ETHICS

Most organisations and individuals agree that embracing ethical behaviour makes good business sense, according to Frank Bucaro, a United States thought leader on values-based leadership, behavioural ethics and author of *Trust Me! Insights into Ethical Leadership*.

“Why do we continue to see headlines about breaches of ethical standards? The answer is arguably two-fold: failed leadership and the lack of moral awareness,” Bucaro noted.

## FAILED LEADERSHIP

“Failed leadership is not about leadership skill sets or how many degrees an individual has, or from where. It is about the lack of commitment, empowerment and transparency in organisations,” Bucaro said.

The heart of most unethical conduct, as well as the lack of reporting of these violations, can be attributed to employees who feel alienated and disengaged, according to US based ethics resource company Skout Group in its research case study, *Getting Beyond the Numbers: How to Identify the Root Cause of Unethical Conduct*.

“These negative attitudes crop up when employees can’t see or live their personal values in the workplace” (Skout Group, 2011).

Further, renowned psychotherapist and founder of the school of individual psychology, Alfred Adler, stated that when people feel like they belong, and can develop a unique identity and feel significant, they will cooperate. However, when this does not happen, Adler highlighted the potential for conflict.

## Employees’ sense of belonging

“Humans find their meaning through the concept of belonging, whether it is to family, church, Scouts, the chamber of commerce or a group of literacy volunteers,” Bucaro said.

“The sense of belonging should exist in organisations as well. When people don’t feel like they belong, then problems can arise within that organisation,” he added.

When an individual enters an unfamiliar situation, Adler further explained that they ask what he calls the social significance question: “How do I fit in here? “

“In the changes going on in the global economy, there are many workers worldwide who are asking this question. Those who have lost their jobs are asking this question in a different context, that is, ‘Where do I fit in?’” Bucaro said.

“It is vital that business leaders encompass these questions and positively answer them. Leaders need to go back to the drawing board because once people feel like they belong once again, there will be cooperation,” he expanded.

## Role of a leader in the new economy

It is extremely important for organisations to recognise the employee as a pivotal force in organisational change. Bucaro draws attention to former chief executive of General Electric Company (GE), Jack Welch, who is recognised worldwide for his leadership skills in corporate change.

### Case study: Leadership strategies of Jack Welch

Having worked for GE since 1960, Welch was appointed chief executive of the organisation in 1980. At the time, GE had a market capitalisation of around \$12 billion. Under his leadership and over the course of 20 years, Welch turned the business into one of the largest and most admired companies in the world. When he stepped down as chief executive in 2000, GE’s market value stood at approximately \$500 billion.

While Welch is a celebrated leader of a global manufacturer often noted for its technological prowess, it is important to recognise he utilised a very human process to drive change through GE’s vast organisation.

With respect for the individual as a pivotal force in organisational change, Welch created a model of exceptional performance.

Under Welch's leadership, managers had wide latitude in building their GE units in entrepreneurial fashion. Determined to harness the collective power of GE employees, Welch also redefined relationships between boss and subordinates.

In a letter to shareholders, Welch once wrote about the continued success of an organisation and the importance of empowering employees.

"The individual is the fountainhead of creativity and innovation, and we are struggling to get all of our people to accept the countercultural truth that often the best way to manage people is just to get out of their way," Welch wrote.

"Only by releasing the energy and fire of our employees can we achieve the decisive, continuous productivity advantages that will give us the freedom to compete and win in any business anywhere on the globe."

Welch also wrote to shareholders about his beliefs in the role of a leader in the new economy.

"In the old culture, managers got their power from secret knowledge: profit margins, market share, and all that," Welch wrote.

"In the new economy, the role of the leader is to express a vision, get buy-in, and implement it. That calls for open, caring relations with every employee, and face-to-face communication. People who can't convincingly articulate a vision won't be successful. But those who can will become even more open — because success breeds self-confidence."

Source: Ten3 Business e-Coach

## Leadership types

According to Bucaro, Welch identified four types of leaders:

1. A leader who delivers on commitments and shares the values of the organisation.
2. A leader who delivers on commitments, but does not share the values.
3. A leader who does not deliver on commitments, but shares the values.
4. A leader who does not deliver on commitments and does not share the values.

"Commitments are something that one can work on, that is, team concept, empowerment, skill sets, etc, but if an individual's personal values do not align with the values of the organisation, then the organisation is wasting their time. It is not possible make people believe in values," Bucaro said.

## Ethical leadership challenges

Bucaro outlined a number of significant ethical leadership challenges. These included:

- a) Doing business day-to-day, including looking at what the long-term interests of customers are, particularly in this economy.
- b) Doing the right thing at the right time for the right reason.
- c) Being careful about what we ask others to do. "If we ask someone to do something that we are not willing to do, don't want to do or find distasteful, what is that saying to those who work with us and for us?" Bucaro said.

He noted another ethical challenge faced by a leader is managing and compensating employees.

"How does a leader balance the organisation's results and keep good people when there are things influencing the decision that are out of their control like the stock market or the economy?" Bucaro said.

"A leader must provide balance, not only for themselves or for the organisation, but for the employees as well. A leader also needs to understand what is controllable and what is not. What is fair? What is right?"

Bucaro explained that leaders need to be discerning as to the cause and effect of decision-making, now more than ever before.

“Another big ethical challenge is how transparent one needs to be. That means what should and shouldn’t we say about being legally correct and still meeting regulatory standards?”

Bucaro said business leaders need to step back and think about transparency. This is because one of the basic elements of getting people into “belonging” is how transparent a leader has to be. By “belonging”, people will feel significant and develop a unique perspective and identity.

## MORAL AWARENESS

Being morally aware can be classified in a number of ways. Definitions of being morally aware include:

- › When a person recognises that a moral problem exists, or that a moral principle is relevant to a set of circumstances. A moral principle would generally include: honesty, respect, compassion, fairness and justice. A moral problem is one that is in conflict or seemingly so with one of those principles.
- › When a person deliberately and reflectively examines their actions and understands how they affect the people involved. The key couple of words in this definition are “deliberately” and “reflectively”.

For a business leader to be morally aware, Bucaro suggested they may need to retreat in certain situations in order for reflection.

### ► For example

“Leaders might need to step back from a situation for a time period, take a sheet of paper and jot down: ‘What do I know about the situation and what don’t I know?’” Bucaro explained.

“They should then spend time reflectively getting as much information as possible that will affect actions and decisions because those then will more clearly point out how they will affect one’s people. It’s a time to step back and use ‘discernment’.

“It’s the time to think about pros and cons, cause and effect, long-term and short-term relationships as well as long-term and short-term goals and results. That takes time. That cannot be done in an emotional crisis. That cannot be done when emotions run rampant in one’s personal situation or work environment,” he added.

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## Moral issues

Moral issues in an organisation arise from one of two sources, according to Bucaro. These are right versus wrong; and right versus right.

### Right versus wrong

This is defined as when a value has been violated. If honesty has been violated and someone has lied to you, or if fairness or compassion has been violated, those are obvious moral violations.

### Right versus right

This is when two core values come into conflict with each other, for instance, truth versus loyalty. For most people, truth is conforming to facts or reality. Loyalty usually involves commitment to a person or body of people, or an organisation. It is right to stand on truth, but it is also right to be loyal. When faced with a situation which involves truth versus loyalty, how do you determine where the decision lies?



### Consider

Bucaro described decision making as like throwing a rock in a pond.

“No matter how big or how small that rock is, when that rock hits the water, water is displaced. As a leader, there have probably been times when they have had to make a decision and they thought about all those possible ripples in that pond; and when they thought they knew all the ripples or causes and effects of that decision, they threw the rock,” he explained.

“However, there were probably times when they have thrown that rock or made that decision that there was a ripple that they didn’t count on that they are now accountable for. The point is: when is the time to think about the ripples? After you have thrown the rock or while the rock is in your hand?”

“Hold, right versus right, hold, think about what we know and what we don’t know to be more effective leaders and get that information. Hold, do communal wisdom, talk to others about, you know, what am I not seeing here that I need maybe to address or include in my discerning process? That’s how we ‘agonise’ in a positive way about making decisions,” he added.

## Moral obligations of leaders

When it comes to the moral obligations of leaders in any organisation, Bucaro outlined four key factors that were essential:

- › Always put people first in decision making.
- › Respect the individual’s human dignity.
- › Treat everybody fairly.
- › Be honest, if you have a short memory, always tell the truth.

### Always put people first in decision making

According to Bucaro, more than half of all US companies that have downsized in the last few years still have the same problems.

“This indicates that it wasn’t the people, but they were the ones made to pay for the problem of the organisation. Maybe it was the process, maybe it was the leaders, maybe it was something else, but people need to be first in decision making, particularly in the long term,” Bucaro said.

“If businesses state that ‘people are our most important assets’, why aren’t they a priority in many areas of decision making?” he added.

### Respect the individual’s human dignity

While leaders have a right to disagree with an individual’s behaviour, Bucaro noted they do not have the right to challenge their human dignity or self-esteem.

“There is a difference between telling someone, ‘You are the dumbest thing next to the jackass’ as opposed to, ‘Normally you don’t make decisions this poorly. I was wondering why this decision was made and how you came to that?’ Remember affirm personhood, disagree with behaviour,” Bucaro emphasised.

### Treat everybody fairly

It is essential that leaders lead by example and play by the same rules as everyone else.

“Do the rules apply for the chief executive officer down to the new hire? The last thing a leader needs is a chink in that armour that there are different rules for leadership than there are for everyone else. Everybody must play by the same [rules],” Bucaro said, using an analogy to illustrate this point further.

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#### ► For example

“If you invite a person to your house to play a game, shouldn’t you explain the rules before playing? And what happens if you change the rules in the middle of the game? What happens to your credibility and the credibility of the game? That’s what a code of ethics needs to do,” Bucaro said.

“These are the rules by which we play here at this company; they will not change and they apply to all. If you’d like to join us, these are the rules, if not, then maybe you need to find a job someplace else.

“That’s the goal, but within the context of those rules, that code of ethics, which include mission statement and value statement and some kind of putting these under one umbrella, the key point is that everybody must play by the same rules – everybody,” he emphasised.

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### **Be honest, if you have a short memory, always tell the truth**

Bucaro stressed it is vital that leaders are honest and always tell the truth.

“Some people state: ‘I only told a little white lie’. Compared to what? A big chartreuse one? If honesty is a moral principle, then don’t chip away at it. Be honest. Yet how many of these moral obligations do we see in today’s workplace? These obligations are innate capabilities that leaders today, more than ever need to address, communicate and model in their organisations,” Bucaro said.

### **Being morally aware**

To be morally aware, Bucaro said leaders must:

- › Commit to moral principles.
- › Develop a sensitivity and realise there’s risk involved in living out these principles.
- › Have the resolve when needed to pay the price.

### **Commit to moral principles**

At times, there is a distinction between what is stated and what the behaviour is of those in the organisation. This is unacceptable, according to Bucaro.

“There has to be consistency and continuity; that’s what commitment means, that what you say is how you live. What you say is how we do our business,” he said.

“What you say is how our customers experience working with our company. What you say also our vendors and suppliers can count on, unequivocally, on how we do business with them as well,” Bucaro added.

### **Develop a sensitivity and realise there’s risk involved in living out these principles**

Leaders need to be sensitive and deal with the realisation that someone, somewhere, on that leadership chain is not going to like certain decisions.

“There are risks in every decision that a leader makes, but you must have a foundation of moral principles and you know what is right. The question is: are you still willing to do it? Because of those principles are you still willing to make the stand? Are you still willing to speak out? And are you still willing to stand up for those principles, those values, in the work place?” Bucaro said.

### **Have the resolve when needed to pay the price**

Bucaro said it’s imperative for leaders to consider the price-to-pay for what they want to do.

“Particularly as a leader, and if you can’t pay, you better walk away because there’s an absolute in life that’s just like gravity — what goes around, always comes around, positive or negative. It all comes around. Have the resolve, what’s your line in the sand? Here’s where I stand. I will not cross it. It is a non-negotiable,” Bucaro said.

## **BEING ETHICALLY PROACTIVE**

When it comes to a leader being ethically proactive, Bucaro outlined six key steps to follow.

### **Consider**



The six key steps to being ethically proactive include:

Step 1: Re-examine your mission and your value statements to ensure that the values communicated are non-negotiable.

Step 2: Consistently emphasise to all leaders that they must be models of ethical behaviour at all times.

Step 3: Communicate specific ethical behaviours that are required of all leaders.

Step 4: Identify possible grey areas that arise during the implementation process of a company’s goals and values.

Step 5: Ensure that leadership communicates what is negotiable and what is not.

Step 6: Develop strategies to recruit, recognise and retain ethical, moral leaders.

### **Step one: Re-examine your mission and your value statements to ensure that the values communicated are non-negotiable**

“My research points out that the average mission statement, value statement, and code of ethics, is at least five years old. Now, if you look at the last five years in your business, much has changed, that is, the state of the economies, the needs of the customers, the needs of your employees, additional issues that have arisen that didn’t exist five years ago.

“Go back, take a look at that mission statement, not that you have to write a new one — maybe it just needs to be tweaked. And for those of you who have codes of ethics, please evaluate if those codes or those points of those codes of ethics still make sense in today’s workplace,” Bucaro explained.

#### **► For example**

Bucaro said leaders should refrain from using terms like “right” and “wrong”.

“They need to use phrases like, ‘What is negotiable? What is non-negotiable here? What is acceptable? What is not acceptable?’ If leaders use the terms ‘right’ or ‘wrong’ it’s always a question of ‘according to whom or what?’ But if leaders state what’s negotiable and what’s not, what’s acceptable and what’s not, this is how we play the game to go back to that analogy,” he said.

### **Step two: Consistently emphasise to all leaders that they must be models of ethical behaviour at all times**

“How many times in the news lately have we read about leaders in almost any industry and politics, where the leadership did not behave ethically at all times, much less being compliant?” Bucaro said.

“Models of ethical behaviour must be consistent all the time. You can’t be ethical at work and not ethical at home or vice versa. You either are or you’re not. There are few areas of grey when it comes to ethics and morals in the workplace,” he added.

### **Step three: Communicate specific ethical behaviours that are required of all leaders**

Bucaro said leaders need to know what is what’s acceptable, what’s not, and then clearly identify and communicate the consequences if those requirements are not met.

“What one of my clients equated this to is someone having the first stages of cancer, now’s the time you cut it out, not a year from now. And what does that say to the rest of the employees or people of the organisation, that you have been proactive in getting rid of someone who did not behave and believe accordingly to the values, the mission statement, and the code of ethics of this company?

“It says so much more than letting someone slip by or look the other way. I think we need to understand that a leader’s title gives one the authority, but a leader’s behaviour gives one respect. Leaders need to work for respect, not authority,” he said.

### **Step four: Identify possible grey areas that arise during the implementation process of a company’s goals and values**

“If you really want true implementation of goals and values, then everybody needs the opportunity to have input into those goals and values,” Bucaro said.

► **For example**

“To help people feel like they belong, develop a unique identity, and feel significant, shouldn’t they have at least the opportunity to participate in reflecting on goals and values?” said Bucaro.

“If they choose not to participate at least they had the opportunity to contribute. If goals come down from on high, if values come down from on high — if you will — everybody is supposed to live them, maintain, them, develop them, without input, there tends to be a gap there.

“This might be one of the grey areas. How do we implement, but first before we implement, how do we assess the reflection, the input of those employees, if not all of them, that are involved in what’s about to take place?” he added.

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**Step five: Ensure that leadership communicates what is negotiable and what is not**

“People need to have an opportunity, whether it’s committee work or a hotline, to give input as to the pros and cons or suggestions of making something a little bit better and more clearly defined.

“This is about giving everybody the opportunity of getting involved, to try to make this a better place for all of us to work, and to create loyalty and to create belonging and a sense of identity and a sense of significance,” Bucaro explained.

**Step six: Develop strategies to recruit, recognise and retain ethical, moral leaders**

Bucaro said each level of leader needs to develop moral leadership skills.

“This could be C-suite executives or leadership development programs, and what are the strategies that you need to implement to recruit, recognise, and retain these leaders?” he said.

“This is a point that needs to be taken seriously now given this economic environment, given this recessionary time. Now we need them more than ever and how do leaders need to go about doing that? This depends on industry, the leaders involved, etc., but strategies do need to be implemented,” Bucaro explained.



**Quicklink**

- › For more information on values-based leadership and behavioural ethics visit Frank Bucaro’s website at [www.frankbucaro.com](http://www.frankbucaro.com)
- › For more information on ethics training, visit Global Ethics University website at [www.globalethicsuniversity.com](http://www.globalethicsuniversity.com)

**IN CONCLUSION**

“If we can start with the investment in the leaders of the organisation and instil a sense of moral awareness throughout the organisation, the gap between what is professed as values and what is modelled in behaviour will become increasingly smaller,” Bucaro said.

“Here’s the ‘ethics gap’. In some companies, the gap is so big and so glaring between right and wrong and the perception of what’s right and wrong, that they get into big, big problems. The goal as leaders is that there will always be a gap, but to work hard to make the gap as small as possible,” he explained.

Bucaro highlighted it’s important to remember that failed leadership and the lack of moral awareness are both conscious choices.

“People choose to be dishonest. People choose to cheat. This is a choice and as with all choices, there are consequences, good or evil. It is the leader’s responsibility to see what others do not see, to discern what others may not, and to act with fortitude, conviction, and moral purpose. This is exemplary ethical leadership,” he said.



## REFERENCES

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