Leadership and Ethics:

The relationship of leadership style in maintaining organizational ethical and moral behavior

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Executive Summary

How does leadership affect the public’s view of an organization? Just because we perceive some leaders to be ethical, do we see the organizations they lead as ethical and moral? Are there some fundamental characteristics, activities, or requirements that make a leader or an organization ethical? This investigation looks at the connection between leadership style and ethical failure.

This investigation is undertaken by reviewing current scandals in large publicly held organizations through the review of investigative books. The goal of the research is to discover if there are key indicators that organizations can utilize to determine if their leadership is more likely to support, or derail, their ethical goals.

To develop an ethical definition for the purposes of this research, an exploration of ethics is undertaken. The key element of the resulting definition is to define ethics as a process, avoiding the necessity of determining how or if an organization is capable of being ethical. For pragmatic reasons, an organization is deemed unethical if it or its employees engage in illegal activities, or if the organization fosters a situation or environment that takes advantage of a cycle of trust that exists between the organization and areas such employees, customers, and suppliers.

This definition clearly puts the responsibility for an organization ethics into the hands of leadership. It is the priority and resources given to ethics by leadership that determines the importance attached to ethical behavior by those associated with the organization. To evaluate leaders, both internal and external leadership forces, with a focus on key elements affecting leadership in today’s organizations, are investigated to identify which key aspects of leadership are linked with ethics.

Power, and the ability to wield power, are clearly identified as key aspects of leadership and form one of the core components of modern leadership theory. Thus, for the purposes of this research, leadership is defined as the use of power to get others to do what you want. Therefore, the simplest leadership models that focus on power are utilized to evaluate the study's leaders.

Ethics and leadership are linked by power in the context of an organization. Ethics requires power, in that the individual must have the power to act. Leadership requires power, the power given by those led. The decisions made by an individual on how they use power determine both their ethical and leadership qualities. Just as ethics cannot exist without leadership, leadership cannot exist without ethics since the very act of leadership generates ethical dilemmas that must be resolved.

The research revealed all the leaders in the study used an authoritarian leadership style. Additionally, several key characteristics of leaders were identified within organizations that had ethical lapses. These characteristics revolved around three critical areas: the leader’s ego, the hiding of information, and the drive for success. Empirically it seems clear that leadership is a key element in scandalous
behavior in an organization, and by extension is central to any effort to prevent scandalous behavior. But, while this research has shown a high correlation between unethical behavior and authoritarian style leadership, it has not shown predictability between leadership style and ethical outcome.

What can boards or organizations learn from this investigation? While no single leadership style directly implies ethical failure, authoritarian leaders were associated with all the ethical failures investigated. No matter the leadership style, and even with the best intentions of the employees and leadership, there will always be ethical stumbles within an organization. However, organizations with authoritarian leaders would do well to ensure that safeguards are in place and are being followed, particularly in the key area of finances. Most importantly, boards must not relinquish their responsibility as overseers of an organization.

Organization ethics is a process. For those organizations committed to ethics, development and support of an ethics process can lead to greater ethical compliance not just of leadership but also of all organization employees. Boards, leaders, and employees each have a role in developing ethical behavior within an organization. All must work together to build an environment wherein unethical behavior is not allowed. It is through this shared responsibility that boards and employees can help to prevent authoritarian leaders from creating the next Enron, Worldcom, Bre-X, ImClone, Lincoln Savings & Loan, or Hollinger disaster.
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1. Introduction

How does leadership affect the public’s view of an organization? From a personal and social perspective do we see the leaders as ethical and moral? Do we see the organizations they lead as ethical and moral? If one was asked to rank leaders and their organizations according to their ethical quality, how would the following rate: Ken Lay or Jeffery Skilling, and Enron; Richard Nixon and Watergate; Bill Gates and Microsoft; Mother Theresa and The Missionaries of Charity; Rudolph Giuliani and New York City; Jorma Ollila and Nokia; Jack Welch and GE; or, Nelson Mandela and South Africa. Some of these names are familiar, while others are not. For some, the ethical or moral attachment is transferred between the organization and the leader, while others remain separated. And while it is generally impossible to meet the definition of ethical and moral behavior held by all stakeholders, the above list is evidence that some leaders and organizations are more successful than others.

Are there some fundamental characteristics, activities, or requirements that make an ethical or moral leader, or make an ethical or moral organization? Could a board of directors be able to increase the odds that the organization is not caught in the next scandal or legal action? This investigation will be looking at the connection between leadership, specifically leadership style, and ethics, or more specifically ethical failure. This investigation will be undertaken by reviewing current scandals in large publicly held organizations through the review of investigative books. The goal of the investigation is to discover if there are key indicators that organizations can utilize to determine if their leadership is more likely to support or derail their ethical goals.

The investigation to discover the existence of key indicators will begin by defining potentially ambiguous terms. Two key terms that underlay this investigation are ethics and leadership. This research will begin by defining ethics through a process of reviewing current and historical definitions of ethics, both from an individual perspective and an organizational perspective. A leadership definition will be developed through the same process of reviewing current and historical leadership definitions and models. The definitions of ethics and leadership will then be used in uncovering potential links between ethics and leadership, by investigating elements of leadership and ethics and their roles in success and failure.

The definitions developed and linkages uncovered will be used as a basis to determine their suitability in evaluating ethics in the context of an organization. They will also be the basis for evaluating current leadership models to determine their suitability in evaluating leadership and its link to ethics. Building on this foundation the research procedures and research source material will be discussed, followed by key insights uncovered through the research process. The investigation concludes by indicating whether there are key indicators organizations can utilize to determine if their leadership is more likely to support or derail their ethical goals.
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To begin this research a convenient starting point is to search for a serviceable definition of ethics and of leadership. Determining what is, or is not, ethical behavior has been the subject of human debate for centuries, and the concept of leadership has no less of a history of discussion. While this investigation does not intend or claim to have solved these definition conundrums, the goal is to arrive at serviceable definitions for the purpose of the research, and will be the start of this investigation.

2. **Ethics**

The goal for this investigation is not to develop and present a comprehensive definition of ethics, but rather to present a definition generic enough to be generally acceptable, while being specific enough that one is able to categorically say whether an action, or activity is ethical or not.

A particular problem when discussing moral and ethical behavior is agreeing upon one’s definition of what “moral” and “ethical” means. A representative definition from *Webster’s* for ethics reads, “The study of standards of conduct and moral judgment; moral philosophy or the system or code of morals of a particular philosopher, religion, group, profession, etc.” and for morals “relating to, dealing with, or capable of making the distinction between, right and wrong in conduct.” *(Webster’s New Twentieth Century Dictionary, 1977)* These types of definitions do not answer the question of what is right and wrong, or what is moral and ethical. Defining the underlying concept and definition of what is right and what is wrong is the underlying cause of ethics ambiguous nature.

Hundreds of years of philosophical discussion has not answered this underlying question of what is right and wrong, and it is unlikely that we will be able to arrive at an acceptable universally applicable answer either. Given this, and an understanding that culture and context are significant aspects of ethics and cannot be separated from the discussion of ethics, the question becomes, is there a more pragmatic definition of ethics than the dictionary’s, while still being generic enough to accommodate divers culture and context of large publicly held multinational organizations with global presences?

2.1. **Different Definitions and Views**

Given this wide spectrum of ethical demands, how then for business purposes can we define ethics? As noted earlier, the search for a universal definition of ethics has a long-standing tradition amongst philosophers and students of human nature. Solomon (1992) noted that it was Plato and Aristotle who adopted the word ‘ethos’ to describe their investigations into Greek values and ideals which focused on power, means and ends. Plato suggested that ethics was the pursuit of the good life, which is the pursuit of intelligence that consists of the satisfying desires, exercising power over others, and the pursuit of spiritual good. However, he felt that few people had the capacity for moral wisdom because of their ignorance. Locke’s belief that everyone should strive for their own happiness and pleasure led to the belief that a virtuous, or moral, person was a prudent pleasure seeker. (Jordan, 1987) Freud, one of the fathers of psychiatry, noted that ethics and morality boiled down to hedonism as defined by his
pleasure principle, where every action is tested against the pleasure it brings with the superego playing guardian to morality regarding behavior. (Fream, 2005) More recent studies into ethics have resulted in Downie and Telfer’s argument, highly simplified, that morality requires individuals to maintain an attitude of respect for all persons and then act accordingly (Jordan, 1987).

While ethics and what constitutes ethical behavior has inspired heated debates for centuries, for the purposes of this research a single practical definition of ethics is needed. Current theories and discussions range from universal static definitions of ethics, such as normative ethical definitions embraced by many fundamental religious organizations, to variable changing ethical definitions espoused by many situational ethics proponents and cultural ethics proponents. Variable ethical proposals include virtue and duty theories influenced by Kant and Pufendorf, Consequentialist theories that include a wide range of Utilitarianism from Bentham’s initial work through John Mill’s rule oriented utilitarianism, on to the more modern ideal utilitarianism of Moore and preference utilitarianism of Hare (Fieser, 2003). A currently popular ethical theory that has spawned significant discussion and research in other areas, including business ethics and leadership, is Hobbes Social Contract theory, which while primarily a normative ethical theory encompasses aspects of consequentialist theories (Fieser, 2003).

As can be seen from this highly abbreviated listing of recent ethical and moral theories, no single definition of ethical behavior has been universally accepted. This does not mean that there has not been progress, as a number of key aspects of ethics have been explored. Luegenbiehl (1983) notes that ethics is not merely a personal element, but includes those around us when he notes that ethics is recognition of an obligation to society that transcends mere self-interest. This corresponds to the cultural relativism idea of ethics recorded as far back as Sextus Empiricus and in more recent times by William Sumner (1906), which maintains that ethics and morality are based on the accepted values and standards of one’s society. MacIntyre (1984) also argued that moral virtues develop and emerge from social norms and traditions. The individual is not absolved however. At the other extreme is individual relativism that postulates individuals create their own ethical and moral standards similar in vein to Nietzsche argument that superhumans create their own morality distinct from, and in reaction to, what he saw as the enslaving value system of the masses (Fieser, 2003). Regardless of where the ethical impetus derives from, one element agreed upon is that action is also required. Harris, Pritchard and Rabins (1995) note that having and following a code of conduct involves an individual autonomously accepting and committing themselves to their support.

Looking at these various beliefs and definitions it might be possible to develop a general all-inclusive definition that could be used as the bases for our research. One thing that immediately becomes apparent after looking at these definitions, is that they are striving to identify what’s right, or justify actions as being right. While developing a definition of what is appropriate, right, and ethical is generally the ultimate goal, as we want to be able to point at a person, action, or decision and be able to positively say
that is ethical. However, as can be seen in the above definitions, this approach is inherently difficult due to the wide-ranging cultural backgrounds and values that individuals hold. It appears that definitions which try to identify positive ethical actions and behaviors tend to become nebulous and open to widely disparate interpretations.

An alternative might be to look to the mathematics and scientific world where sometimes it is easier to prove the negative than the positive. In this case it might be easier not to define good ethics, but to take the inverse approach and define what is unacceptable ethics. The Judeo-Christian world has an excellent example of the dichotomy between prescription and praxis. On the prescription side there is the golden rule, which advocates treating others as you would be treated. This is a very nebulous definition, open to a wide variety of interpretations. In fact the author George Bernard Shaw (1903) in his Maxims for Revolutionists humorously pointed out the underlying problem in that the other person may not actually like the same treatment you do. This definition while intellectually adequate for most people, if they were to follow the creed would in essence act ethically as far as their ethical beliefs were concerned, does not actually identify ethical and unethical behaviors. Looking to the other praxis, or practical, contribution of the Judeo-Christian community to ethics is the Ten Commandments. The golden rule is presented in a positive manner of prescribing what is good action, what ought to be done, and what is acceptable ethical behavior. The Ten Commandments differ in that they are a list of practical requirements, presented in the negative, describing what actions are unacceptable. So while not explicitly defining what is ethical, they create a definite boundary by defining what is not ethically acceptable.

When a society attempts to codify its ethics it is generally this negative approach that is taken and is reflected in the laws and standards of the society, such as murder is wrong and theft is wrong. If we attempt to define ethics from this perspective, it becomes relatively simplistic to create a universal definition of unethical behavior for the business world. I propose that the following activities would be considered to be unethical from a business perspective: any activity for which the individual would be legally culpable (they are fined or jailed) any activity in which the organization would be subject to government or controlling body intervention (assets are seized or organization is fined); and/or any activity that opened the organization up to successful litigation (employee and customer lawsuits).

If an organization avoided the actions within this type of negative definition, it would amount to the absolute minimum requirement to even begin considering an organization to be ethical. If any of the negative definitions were not avoided, it would be immediately determined that at some level unethical actions were undertaken. It also addresses the issue of cultural and location differences by allowing the definition to be fluid, addressing the ethical norms inherent in the local laws of the land.

Defining ethics in this manner while generally positive does not address the possibility of unethical behavior until the organization is “caught”. Also, it does not account for behavior that is generally accepted to be unethical, but has yet to be encoded into law, such as insider trading, fraud, or pyramid schemes. Further, it does
not readily submit itself to evaluating the overall ethics of an organization before an infraction occurs, and does little to differentiate between the unusual and aberrant behavior of a few individuals within the organization versus a consistent and commonplace standard of behavior across a majority of individuals within the organization.

Finding an acceptable method of determining right and wrong, and then acting upon that determination, is the basis for a practical definition of ethics. Lord Moulton, an English jurist in the 19th century, in describing ethics as being different than the law stated that ethics was the “obedience to the unenforceable.” (Moulton as cited in Silber, 1995) He felt that if individuals merely followed the law of the land, then they would not necessarily act civilly or ethically in those areas that were not enforceable.

Lord Moulton’s definition could also form the basis of a practical definition of ethics for the purposes of this research as it encompasses action and moral beliefs regardless of the underlying society or the belief of where ethics and morality originate. It is able to accomplish this by avoiding, like the dictionary definitions, specifically identifying what is right or wrong, leaving this up to the individual.

This however highlights another potential difficulty both for our practical definition and many traditional definitions for ethics; what is an individual? In the business world there are generally at least four distinct “individuals”; the organization itself, and key stakeholders – the employees – the investors – the customers. Each of these “individuals” may, and indeed do, have different ethical standards, and looking at our definition might have widely varying interpretations. To continue a search for a definition of ethics, an investigation into the individual versus the organization in the context of ethics must be undertaken.

2.2. What is Ethical Behavior

Taking our combined potential definitions for ethics (an action is unethical if it places the organization or its employees in opposition to the law, and further that the organization and it employees will act appropriately regardless if they are caught or not, or if direct legislation is in effect) lets us discuss the problem of defining the individual to be assessed with this definition. Take a simple, yet common, example that highlights the potential differences in a business’s “individual” ethical demands. Drawing on real world examples, imagine a fictitious large multinational organization based in the United States which has a Southeast Asian subsidiary that accounts for a significant portion of its manufacturing capacity. Competition is forcing the upgrading of facilities that requires new advanced communications with the home base in the United States. Following “official” procedures of submitting requests to the state-operated phone company means a wait of possibly a year to have the communications approved and installed, which would severely impact the organizations competitiveness to the point of being forced out.

- From the organization “individual” perspective, bribing foreign officials is illegal, and punishable by law.
• From the employee “individual” perspective, an employee from the United States may believe that bribery is unethical, whereas a local hire may see it as a normal part of business, and may in fact view a failure to bribe as being unethical.

• From the investor “individual” perspective, looking strictly from an investment perspective, the failure of a business to act, such that it loses its competitiveness and by extension one’s investment, may be viewed at least irresponsibly if not unethical.

• The customer “individual” is the hardest perspective to define ethically or unethically, especially for a large multinational organization, if only for the large range of cultural backgrounds of its customers. The proverbial “sweatshop” is a good example, where customers in first-world nations battled Nike over its production facilities in third-world nations, whereas some third-world nations are happy to have production move in due to the opportunities they present.

2.3. Business and Ethics

This example shows the two elements which are most often involved in controversy and which bear the brunt of the ethical failure impact - financial and social responsibility. In discussing social responsibility the discussion is not a theoretical one, but one based on the socially accepted norms within which the organization operates. These examples also make it apparent that while our simplistic definition may work in limited cases, it may not scale to the ethical issues encountered by large multinational organizations. We need to further understand the potential ethical failures that such an organization may encounter.

As noted earlier societies have generally, though not necessarily, encoded these norms in law. Examples include improper work conditions, ignoring worker safety, dumping waste in unapproved locations, utilizing illegal work forces, and false advertising. A quick glance at this list immediately highlights the ties to the first element, finance. A primary factor in ethical dilemmas is often a financial gain or loss. Ethical failures in the financial arena tend to simply boil down to either facilitating or fictionalizing. Enron provides examples of both facilitating and fictionalizing. Their early use of creative accounting to move recognition of profits in subsequent periods, while not illegal from an accounting perspective, facilitated their misleading of investors. Before their collapse they had graduated to fictionalizing with financial reporting that knowingly misstated their financial positions.

In today’s highly competitive global market, businesses must not only compete with the traditional local competitors, but those from the opposite side of the globe. A failure today could be just the opening needed for an enterprising virtual corporation with a web site to lure away ones customers. In an environment where distance, price, and to a great extent quality, are no longer barriers for customers, service has begun taking center stage as the key competitive advantage for organizations. A key component of this service is a relationship of trust with the consumer, given the
numerous options that consumers have, a break in this trust can result in the loss of the customer. Arthur Anderson is a prime example, as its customer base dissipated with investors and customers citing their lack of trust in Anderson after its actions in the Enron scandal were made public.

Everyday business relies on a significantly high level of trust. For example, customers trust that the product delivered matches expectations, and producers trust that customer payments match expectations. Employers trust that employees are delivering quality work, and employees trust employers to deliver expected work conditions and remuneration. Investors expect organizations to operate in a responsible manner that protects investments, and provides a return, and so on.

Without the constant building and maintaining of trust within the business cycle we would see the collapse of the modern financial system as we know it. Extending credit is the basis of investment, as well as most business-to-business transactions, and many business-to-consumer transactions. This trust is based on the fact that one will be paid in a reasonable amount of time in an acceptable form. For most people this takes the form of a government issued currency. We trust that the currency has some value, is not counterfeit, and can be reused to pay our credit demands. This trust did not happen overnight; it took considerable time and effort. The west has moved from the scoffers burning the paper money Marco Polo brought back from the east, through national monetary systems backed by precious metal, to the unsecured currencies of today, and on to the international trade in derivatives of national currencies.

One can see the potentially dire consequences if this system of trust collapses. We have seen inklings of it during times of war and upheaval. In Italy, out of control inflation saw the Lira devaluated until it was essentially worthless. The ruble during communism had only regional value, and the upheaval after the fall of communism saw many people utilizing foreign currencies due to their lack of trust in the Ruble.

Success from unethical behavior often takes advantage of this cycle of trust or some element in the cycle. By acting in an unethical manner, but not appearing so in order to maintain trust, it is possible for an organization to gain success at the expense of the business partner deceived. In the case of Enron, the company achieved success at the expense of its investors. In the case of American Honda, executives at American Honda, NASCAR, and large dealerships gained success at the expense of smaller dealerships, which they bankrupted and purchased (Lynch, 1997). Moving production facilities overseas arguably gains success at the expense of the employees. At a national or global level, this is also the reason for the significant resources expended to protect against the counterfeiting of currencies, as counterfeit currency allows one party to take advantage of another’s ignorance as to the value of the financial instrument. While not necessarily as far reaching, or at the same social core level, this engineered knowledge differential on one parties part is the basis for most unethical financial behavior; from insider trading, to accounting reporting irregularities, to simple card counting at a casino.
We can take the originally proposed definition of ethics, that an action is unethical if it places the organization or its employees in opposition to the law, and further that the organization and its employees will act appropriately even when not enforced, and condense that down for the purposes of discussing ethics in business as unethical behavior is taking advantage of the cycle of trust or some element in the cycle. This definition encompasses not only the issue of breaking the law, but also more clearly defines the concept of “obedience to the unenforceable”.

2.4. Organization’s Ethics

All the definitions of ethics discussed so far, including the concept of trust, are essentially directed to the individual, and look at individual actions and relating those actions to the individuals belief system. If the actions match the belief system, then one can begin tentatively to assume that the individual is ethically consistent within himself or herself. Then it becomes an exercise to determine if the outward actions match that of the groups of people the individual has chosen to associate with and be governed by. Given this basis of the above-mentioned definitions, the first question one must ask is: Is there a difference between organizational ethics and individual ethics? Or even, are there organizational ethics? If an organization is unethical whom do we hold accountable? Is it possible to hold an organization accountable, or just the individuals within the organization?

These are important questions. If there is sufficient difference between a person as an entity and an organization as an entity, the traditional individual ethical and moral definitions that have been developed may not be useful in describing organizational ethics. In fact it may not be possible or appropriate to ascribe to an organization the same ethical expectations that we ascribe to an individual. In answering this question the most helpful comparison may come from sociology and anthropology and the discussion of ethics as it applies to groups of people, and specifically the governments that groups of people create to govern them. This closely resembles the situation that exists in most organizations where workers have chosen to hand over certain rights and skills in exchange for some consideration, just as citizens of governments do. While this approach may sound appealing, it does have its problems. In practice despite sociology and anthropology viewing societies as a whole, fundamentally, at its core, are the individual actions and reactions of the societal members. This returns us to the traditional discussions of individual ethical and moral behavior. This should be no surprise. For regardless of the relative objectivism or relativism of the ethical theory, there is a recognition that ethical behavior affects and is affected by other individuals.

Dave Kinnear (2002) provides an excellent discussion of ethics and the validity of utilizing the same definitions and research relating to the individual in discussions of organizations. He recognizes that the general concept of ethics and morals is inherently individualistic, and therefore carefully defines ethics and morals and the difference between the two. In developing his definitions he divides morals and ethics, where morals involves the judgment of what is right and wrong, and ethics is the process involved in choosing between competing moral values. His stated reason for this redefinition for the purposes of business is because of the problem with the moral
aspects of ethics, as it is not the organization that decides but the individuals of the organization. By defining ethics as a process it avoids the necessity of determining how or if an organization is capable of being ethical or moral, and allows the organization to focus on the process of being ethical. He defines the ethical process as getting the individuals within the organization, all of whom hold a myriad of different moral values, to comply with the corporate culture rather than attempting to micromanage every individual's actions.

Viewing ethics and morals from this perspective allows us to view the problem not only as a group of individuals, thus allowing us to extrapolate our own business ethics definition based on historical and currently accepted definitions, but also as a single corporate entity with a cohesive ethical statement refined and supported by the group of individuals through an ethical process that seeks to gain compliance with unenforceable aspects of the corporate culture. This leads us to the final determinant of whether an organization’s behavior is ethical or unethical for the purposes of this research. Ethical behavior is a systemic organizational process to build and maintain the cycle of trust. Unethical behavior is a systemic process of taking advantage of the cycle of trust or some element in the cycle.

This definition of ethics is well matched to the research being conducted. It recognizes that ethics and morals are individualistic, and rely upon, and are subject to the actions of individuals. However, it also recognizes the role of the organization in developing a process to develop and ensure that individual actions and decisions support and build the ethical objectives of the organization. The more successful the process, the greater is the trust generated by the process. It also clearly defines those organizations that are “unethical” by definition of creating a systemic process of taking advantage of trust. It allows for “mistakes” to be made by the organization without them being “unethical” as no matter how good the process, clearly not all individuals within an organization will make appropriate choices all the time.

Perhaps more importantly, this definition clearly puts the responsibility for organization ethics into the hands of leadership. Just as with quality control processes, or human resource processes, ethics becomes another process to be implemented, evaluated, and adjusted under the direction of leadership. It is the priority and resources given to ethics by leadership that determines the importance attached to ethical behavior by those associated with the organization. It becomes apparent then, that leadership is vital to ethical conduct within the organizational structure, and this leads us to an evaluation of leadership.

3. Leadership

Edwin Friedman (2005) is quoted as saying “Leadership can be thought of as a capacity to define oneself to others in a way that clarifies and expands a vision of the future.” For centuries great thinkers and the average person have tried to discover exactly what in fact does define one as a leader. In recent times there has been a concerted effort to define leadership and develop models of leadership to help organizations identify appropriate leaders, and to help individuals learn leadership
Leadership and Ethics:

To evaluate the leaders of our study organizations, a definition and model of leadership will need to be developed or identified.

There are many views and models of leadership that have been developed and superseded and readdressed throughout history. But what exactly are they trying to model? What is the underlying “thing” that is being addressed? What is leadership? When looking for an answer to this question, a reasonable place to start would be Harvard; a name that has become synonymous with business and success. In a Harvard University, Center for Public Leadership publication, Eric Gaillard (2001) posits this same question and provides an answer that shows a personal change of beliefs regarding what leadership is, just as leadership models have done throughout history. He starts the paper with this answer: “A few months ago I would have answered that leadership is authority. Leadership is control, power, and strength. Leadership is making decisions. Leadership is taking initiative in groups, organizing, and making people do what you want them to do. Leadership is filling a power vacuum.” He ends the article with this insight into leadership, “…I mobilized the resources within that environment, and, in a small way, exercised what I consider true leadership… I had learned that I could engage people without using authority.” I think the key element of leadership is identified in this final sentence “…engage people…” or put simply in the words attributed to General Eisenhower, "Leadership is the art of getting someone else to do something you want done because he wants to do it." (Eisenhower as cited in WikiQuote, 2005)

Any discussion involving leadership necessarily means trying to define leadership to identify leaders. Historically identifying leaders and leadership was a relatively easy task; either one was born to it, or one grasped it through military or political maneuvering. Much of the historical world has been a succeeding series of class-based societies with essentially two classes; those with power and those without. Essentially, leadership was a result of one’s position. If you had the power to force someone else to do something, you were their “leader”. However, numerous revolts, purges, wars, and the rise and fall of various political leadership ideologies in the intervening years, have shown that leadership is no longer the purview of a single class of people. And, while political and military leadership still play a key role in the world, the importance of business leadership has arguably moved to the forefront. In today’s world, a political leader’s position is often subject to the economic performance of their subjects, arguably with militaries becoming extensions or tools in helping to protect economic interests. While government leaders are undoubtedly important, today a majority of those individuals recognized as leaders are not in the political or military realm. Rather they are found in organizations from small businesses to global multinationals, in for-profit and non-profit organizations, and in all sectors from manufacturing to service industries.

When trying to identify or evaluate the difference between great leaders, mediocre leaders, and poor leaders the results are often vague. Where do leaders come from? Do they inherit it, as in the days of monarchies and theocracies? Can leadership be taught? These are all questions that have surrounded the concept of
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leadership for centuries, and however you answer the questions, one fundamental belief is that, as Rosen and Digh (2001) have pointed out, today more than ever global success depends on skilled leadership.

History has labeled some men and women as “super” leaders worthy of global or regional praise and condemnation. Globally, we praise Augustus Caesar for the Pax Romana, Winston Churchill for saving England, while others we vilify like Adolf Hitler and Lucricia Borge. Still others, such as Genghis Khan or Joan of Arc, have achieved a sort of fame for their leadership despite an ambiguousness regarding their relative praise or condemnation. What is interesting about these leaders is that we remember them, they are studied in school, they are praised and vilified; yet more often than not there is a complete lack of knowledge and indifference with regard to their individual leadership decisions.

These leaders tend to be remembered for specific character traits or specific visions of the future. Winston Churchill never gave up, was eternally optimistic, and knew England could survive World War II. Adolf Hitler wanted racial purity, Lucricia Borges poisoned rivals, Joan of Arc heard voices, and Stalin consolidated power through fear. Nowhere is this focus on vision, mission, and character more evident than in how “dynasties” of leaders are viewed. Some leadership dynasties have reached superstar status independent of their actual success, ability, or even personal identity. Good examples are the Pharaohs whom we generally view as being great because of their long-lasting society and the pyramids. This same analogy would also apply to current leadership dynasties, such as the Popes, whose leadership historically has ranged from being responsible for some of the western worlds greatest classical art, music and architecture, to being responsible for considerable cultural and political change; especially in the western world. While historically there have been good Popes, poor Popes, highly favored Popes, and highly political Popes, a key element is the ability of the position to inspire and lead a world of devoted followers regardless of, or in spite of, the person holding that position.

In the pre-modern era of business leadership the leaders of big business were well known from the Rockefellers and Carnegies to the Fords and Duponts. The global positions of these organizations and the close ties of the leaders with the organizations meant that even the average person on the street knew their names. Ask the average person on the street today to name just 10 organization leaders, and few would be able to. Some names will immediately come to mind due to their current newsworthiness, such as Martha Stewart or Ken Lay of Enron. Others will come to mind due to the sheer ubiquitous nature of their products and their sheer wealth such as Bill Gates of Microsoft or the Waltons of Wal-Mart, whose combined companies account for seven of the top ten richest Americans. Others may be known because of their current pop-culture icon status, such as Steve Jobs, Donald Trump, or Richard Branson. However, what about Terry Semel, Barry Diller, William McGuire, Howard Solomon, and George David? According to Forbes these are the five highest paid CEO’s in 2005, accounting for almost three-quarters of a billion dollars in compensation, combined with nearly a half-billion dollars in shares owned, yet they are not exactly household names.
The question of precisely who is a leader is a hard question and has no definitive answer. There are widely varying opinions on what even constitutes leadership at the basic level. Historically if you were in charge of a group of people, you were a leader. However, in recent times there has been a concerted effort to distinguish between management and leadership, where management is focused on daily operations versus leadership, which is focused on visioning. However, this line between leadership and management is often blurred, especially in smaller organizations. Where does one end and the other begin? One obvious method of defining a leader is by position, if you are the president, CEO, or board chair, then you are in a position of leadership, and therefore a leader. While this may appear to be a simplistic definition of a leader that ignores many aspects of leadership, such as an individual’s ability, it does represent the prevailing view that general society has of organizations today.

Today we are generating the historically great leaders of tomorrow. How will history view Bill Gates, Saddam Hussein, Nelson Mandela, and Mother Theresa years from now? Which will be remembered as worthy of praise, which worthy of vilification, which will be remembered at all? Does great or even good leadership value depend upon who remembers it and for how long?

While we will never be able to answer these questions, as everyone has their own opinions regarding individual leaders, one thing is clear, today’s super leaders have become superstardom. Once the purview of rulers and movie stars, superstardom has come to the business world with names like Lee Iacocca in manufacturing, Walt Disney and Michael Eisner in the entertainment world, Bill Gates and Michael Dell in the technology world, Donald Trump in real estate, while still others bounce between industries such as Steve Jobs and Richard Branson. And like their Hollywood counterparts, these leaders are often reaping greater and greater paydays.

Unlike their Hollywood counterparts, business and political leaders are arguably more important than movie stars because of their sphere of control. While movie stars can influence people and change peoples spending habits, they cannot directly alter people’s decisions, as individuals still have a choice in how they participate in the “movie stars life. On the other hand business and political leaders have a significant sphere of influence over those under their control. If, for example, new leadership takes over an oil company, what they say controls people in the company (hiring/firing/layoffs), as well as the environment and people in the environment, as well as those influenced by the economy of the oil industry. With globalization and consolidation creating organizations with net values greater than some small countries, and employing tens of thousands, it may be that today’s leaders increase in status and rewards is a natural reaction to the level of control they exert over people and their everyday lives.

3.1. Identifying Leadership

If leadership is involved in the full spectrum of human activity from the political realm through to the military and beyond to the very economic fabric of modern culture,
how does one define who is involved? And then, which of those involved is a leader? The answer to the first question is arguably everyone, either in the role of leader, or as a follower, or according to the most recent leadership models, a bit of both roles simultaneously.

The second question is more difficult to answer; for example, when you see an individual in front of a large group of charging soldiers it is difficult to know if they are in that position because they are directing a large force into battle, or if it is a quick retreat and they just happen to be that particular groups front-runner.

In the first case, the leadership is obviously coming from within as the commander is controlling the troops, directing them toward the focal point that is the enemy, with the anticipated result of victory. Win or lose, the primary force of leadership came from within the organization of individuals.

In the second case, one would hardly call the front-running individual a leader. In fact the leadership for the group of individuals was coming from outside, the attacking force was wielding and controlling the power, they were providing the direction and focus to the fleeing group (i.e. anywhere but here) and they determined the results of the group (i.e. failure).

The contrast may not always be so stark in the business world, but the same conditions are often seen when market leaders force competition into actions they would not otherwise desire. Businesses have numerous internal and external leadership pressures and while these pressures are both effective leadership forces, it is important to note that they are not equitable. An external pressure is not the inherent leader of an organization.

This also demonstrates an important aspect; despite leadership happening at all levels, actions are bounded and determined primarily by the overarching leadership provided by senior management. Leadership at any level of the organization will respond to internal and external pressures in a manner that is consistent with focus, direction, and results defined by the power they serve, arriving ultimately at the organizations top management.

### 3.2. Changing Corporate Landscape

The corporate and business world has undergone extreme changes in the past century. We have seen a shift from the industrial revolution to what is being called the information revolution. We have seen the globalization of economies. Globalization combined with mergers and acquisitions and new technologies has resulted in organizations with greater economic resources than many countries. Political systems have fallen and others have been strengthened. New markets and products have developed, and longstanding ones have disappeared or shifted across geo-political lines. These external changes are mirrored by internal changes, such as the rise of unions and their globalization, an ever increasingly educated workforce, and the rise of the small investor after World War I.
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Just as the corporate landscape is changing, or perhaps because it is changing, there is a changing view of leadership as well. Within just the last century, it was common for the largest organizations to still be led by the founder, the founder’s family, or a direct appointment of the founder. While this is still the case with many organizations, it is increasingly more common to have hired professional leaders in charge of the organization. The operative word is hired. The board of directors and investors are hiring executives for specific purposes; usually growth, as one can imagine.

Unlike the founder, or owner of the organization, the professional manager cannot generally unilaterally make decisions that are blindly followed. One cannot, for instance, act as Henry Ford. Ford often unilaterally decided on the organization direction, in the process leaving behind those who disagreed. This was possible because he owned everything. Today’s professional manager does not have this capability and is in place at the discretion of the owners, the investors, and their diverse will. In fact, senior managers might not even have a stake in the organization they are managing. A recent example is Michael Eisner at Disney, and the recent decision by the investors to remove him from his position. This example shows that even past performance is not a guarantee of future acceptability.

In today’s leadership world, an important, if not primary concern, of a leader is satisfying the organizations owners and investors. A leader’s ability to satisfy owners and investors is increasingly becoming a challenge due to a variety of external forces. In the search for leadership a few key external forces should be addressed, so that when a organization is evaluated, a differentiation can be made between external forces leading the organization and true internal leadership.

3.3. Global Economy

Identifying and quantifying the changes in the corporate landscape directly attributable to the shift towards a more global economy is a relatively difficult process. While we have had an explosion of global corporations in the last one hundred years, one could argue that this is not a novel development. The colonies of the past 500 years are essentially the corporate globalization of the day. Or we could step back even further and discuss the Song dynasty in China, Genghis Khan in Mongolia, or similar dynasties in India. Each of these “organizations” developed the financial instruments and technologies that were necessary to support their successful trade and corporate survival. One could conceivably go back to the dawn of human history and find traces of globalization, as there appears to be a human desire for exploration and discovery of the new. This is combined with the equally strong desire to own or acquire the newly discovered. From a consumer’s perspective there is a wish to have the greatest diversity at the cheapest cost, while from a provider’s perspective, there is a desire to protect and maintain their consumer base, and to do so at the greatest profit margin possible. In essence, the corporate entities to be governed today have similar precursors.
So what is unique in today’s globalization that impacts corporations? Looking at the recent history of globalization, the 200-year period from 1750 to 1950 saw the global industrial revolution and the associated rise of industrial capitalism. This period saw the reorganization of national states with the professed purpose of representing the interests of the landowners in the defined region. Some of the more notable reorganizations came about with American independence and the French revolution. This started the development of national economies and regional specializations. As transportation technology increased and costs decreased, and with increasing military might, the individual nations began to develop international economic organizations. The economic expansion, particularly into India, Asia, and Latin America worked hand in hand with the national states. After this period of gunboat diplomacy, the separate specialization regions and nation states began working toward what would become a world economy, integrating physically separate industrial systems into larger global systems. It was during this later period of global production system that the foundations of our current global economy were developed, including such elements as state bureaucracy, government statistics, census, and land surveys, along with the development of legal systems, both at the nation state level and at the global level with the foundation of international law. Also, despite the almost infinite variety of production at the local level, on the global level the production system gradually developed the set of rules, regulations, and conventions that allowed for an integrated one-world system of production, such as standardized exchanges, stock markets, currency exchanges, and banking standards.

Since 1950, significant changes underway in the global economy have greatly impacted the corporate landscape. With the de-colonization of the European empires, specifically in Asia and Africa, a whole new group of nation states have been established (or reestablished). The 1990’s saw the end of the Cold War and the decline of some major governmental regimes. However, it is telling that post-industrial capitalism has continued to spread; most notably in what is described as the high-tech sector, or the information age. What is unique is that this capitalism movement is being applied to a non-physical product and is not subject to the traditional nation state boundaries or the global production system of the past, thus eroding the power of the nation states.

3.4. **Changing Workforce**

In addition to changes in the global economy, there is the rapidly changing workforce that corporations must deal with today. At one end of the spectrum it is impossible to separate the global economy discussed in the previous section and the necessarily global work force. At the other extreme there are also big changes happening within the local and regional workforces. The primary changes are a result of improved communication capabilities on a global scale, the shift in skills necessary in today’s organizations, and changes in worker attitudes and expectations.

The final primary change, the changes in worker attitudes and expectations, is perhaps the most important; even more so when considering the links our investigation has to ethics and management style. We have already noted the increased skills that
are being demanded of today’s workforce, even of the “unskilled” labor. and this has resulted in better-educated workforces. This, combined with the improved worldwide communication, allows, as never before, insights into other cultures and nations. This has led to a drive to discover one’s individual and group identity. Results of this can be seen in the numerous drives towards independence such as the break up of the U.S.S.R. and the fall of the Berlin wall. This rise in independence can be seen in the workplace as well. Current management theories are focusing more and more on the aspects surrounding empowering employees, involving them in the decision-making and management process. Even in areas that have been traditionally very hierarchical, such as Asian and Indian cultures, there have been significant increases in individualism and cooperative management. Also, the military, long a bastion of hierarchical management and control is seeing a rise in individualism. Louis Caldera (2001), secretary of the Army, noted that the Army had not been meeting its recruitment goals, citing the individualism of their target market in his speech to unveil the US Army’s new marketing slogan “An Army of One.” This rise in individualism means that today’s leaders cannot rely on position for power. As the US Army appears to have recognized, it is individual actions that generate results, and as individuals become more independent, the leadership role changes to that of focusing and defining results, rather than directing and identifying the means.

3.5. **Demands of Stakeholders**

The demands of investors have had a significant impact on the corporate landscape. As noted earlier, the “small” investor is a relatively recent phenomenon. While they desire increased returns just as did the large investors of the past, unlike the past, decision timelines have shrunk. A look in the business section of any major financial paper today shows not only a yearly stock performance value, but now include time periods such as six-month, 3-month, and weekly performance trends. This change in time value has been magnified with the explosion of mutual funds. Here an investor does not have to worry about any of this, because an investment manager is now responsible for moving large blocks of investments regularly in order to maximize short term-returns. Today a company needs to look as attractive as possible with term over term growth. Otherwise, they face investors dropping their stock in favor of the latest hot commodity, thereby drastically reducing a company’s value and restricting its operational funding ability.

3.6. **Rise of Service**

As the global economy shifts away from primarily industrial capitalism, and possibly toward more service related industries or toward an information economy, corporations are faced with a myriad of new choices. From an operations perspective it is possible for corporations to base themselves in whatever region is most conducive to their desired operations; even to an extreme where virtual corporations can literally be physically based anywhere and moved with little or no cost. From a production perspective, proximity to either materials or customers is rarely a concern, as a corporation can place production facilities based on an ever-expanding set of criteria including tariffs, taxes, environmental concerns, and wages. And, just as production is not necessarily tied to any particular location, neither is a corporation’s customer base;
customers can be located anywhere. The continuous development of international standards is also having an effect, making it harder for corporations to differentiate their products.

Putting all these new globalization trends together means that competition for a customer can come from anywhere, and not just a direct replacement product, as customers have an ever increasing set of alternative solutions from which to choose. This has made it increasingly difficult for corporations to maintain not only their customer bases, but also their internal resources.

**3.7. Changing Leadership Landscape**

Let us digress momentarily and look at the industrial revolution. In the business boom that started with the industrial revolution and continued up to the modern arena, companies and their leaders were synonymous. This association was quite often literal, such as with Ford, Edison, Bell, Diesel, Cunard, Goodyear, Westinghouse, Disney, Sears, Eaton, and so on. Upon examination of the biographies of these individuals, there is no question that these were driven men who tightly controlled their organizations. One cannot help but think of the old saying, “It’s my way or the highway.” As an example, Henry Ford’s displeasure with his partners and their decisions led him in 1915 to start a new company, and by 1919 when the Dodge’s Supreme Court lawsuit was decided, he resigned, and announced his decision to design a better cheaper car. The loss of the “leader” of the organization, and the intention of the leader to directly compete with Ford, made the companies stock undesirable and nearly impossible to sell, except of course to possibly Henry Ford, who bought all the outstanding shares from his partners who realistically had no other choice, thus leaving him as the single owner, and ultimately in control of the company. In the period immediately following this, until about 1922, Ford lost many of his top men, some left due to frustration, others were arguably eased out the door because of differences with Ford. One such, leader was Knutsen who joined Chevrolet led them to a leadership position, and eventually became president of General Motors. These stories of an apparently intractable need to control all aspects of an organization are common and closely resemble the military hierarchy of command with the commanding general ultimately responsible for everything, with all those in the underlying hierarchy subject to their demands and wishes. It is not then necessarily surprising that many organizations of this period were modeled after the military hierarchy, with layers of managers, and organization broken up into units. This concept is even less of a surprise when one remembers that the industrial revolution began in England, a country with a long history of intertwining gentry, peasants, and the military. It is this organizational background which our forefathers brought with them when they colonized America.

Why take a digression into the industrial revolution? Simply this, as with the military, business leaders of this era were unquestionably in control of their organizations. There was little question within or without of the organization regarding who made the decisions for the organization. Likewise it was clear if the organization was operating according to the desires of the leader.
Can we say the same for the leaders in this modern information era, especially considering the apparent musical chairs that leaders have played in the period since the industrial revolution? Take the Fortune 1000 companies; in the nearly forty years from 1945 to 1983 there were leadership changes in 54 companies (Rubenson, Gupta, 1992). In just 2004 alone there were 97 leadership changes in the Fortune 1000 companies (Burson-Marsteller, 2005). By 2005, CNN reported that a survey by Challenger, Gray, and Christmas of top public and private organizations saw in excess of 100 leaders changing each month from February to May, almost double the same period a year earlier (CNN, 2005).

Herein lies the problem; in today’s business world of the professional managers few business leaders are also the owners. Those that are tend to be easily identified as their drive to control matches that of their historical predecessors, and as such they tend to make news regarding their “tyrannical” nature; such as Wallace and Erickson’s (1992) note of Bill Gates nickname “The Silicon Bully” or Christopher Byron’s (2002) harsh characterization of Martha Stewart. However, few people would question the absolute hold Bill Gates has on Microsoft and its direction, either on his own or through his hand picked proxies. But, what of those organizations led by the “unknown” professional manager, possibly on their second or third major leadership position?

Earlier we discussed the changing corporate landscape, and the one significant issue was the change in workforce. Today’s professional leader must address these changes in the workforce that would not necessarily affect an owner or founder. For example, while the rise of individualism and independence amongst professional workers means that they would not blindly follow any leader, nevertheless they may not extend the same level of tolerance and deference they would necessarily afford an owner or founder. An owner or founder has achieved the success currently enjoyed by an organization and thereby has gained respect for the decisions they make. For a professional leader who does not have this background, today’s employees need to know the why’s and where fore’s of decisions and directions.

However, in a large organization with a well-established structure and hierarchy, as well as an established corporate culture, what difference does the leader make? Are they merely a figurehead around which to rally? What is pulling out one leader and plugging in a replacement really accomplishing. We need to evaluate the real potential of the average organization leader, what is their real role.

We have looked at the changing corporate landscape, and the primary external forces that are changing the way organizations do business. We have just seen how changes in the leadership landscape are effecting organizations. It is time to look at key aspects that have been brought to the forefront by these changing landscapes and the associated leadership aspects, to help us differentiate between leaders.
3.7.1. Results Focused

Being merely a leader is not enough in today’s business world; you need to be an effective leader. A world-renowned leader in his day, Thomas Edison focused his commercial exploits on DC-generated and transmitted electricity, despite the proven superiority of AC-generated and transmitted electricity because it was developed and championed by a rival. He was unable to look beyond himself; he saw potentials developed by others as competition not as opportunities. The key is that leaders must be open to change, embracing it and using it to their advantage no matter what the source. A leader cannot merely be protecting power and control, nor blindly following a focus and direction that becomes obsolete. Rather, there must be a drive toward achieving desired results.

3.7.2. Short-term vs. Long-term Focus

There has been considerable research into the apparent trend amongst organizations to shift towards a short-term versus long-term focus, especially in the area of revenue. Much of the focus has centered on investor demands, analysts projections, and stock maintenance. While this is definitely a significant factor, it is not the only factor contributing to a shortening of focus. As noted earlier, there is a growing independence amongst workers, and as skills increase there is greater mobility amongst workforces. As an answer to this shift, a common practice is to tie remuneration to performance, while performance is often defined as revenue increase, sales increase, market capitalization, and so on. In this situation, the greatest personal benefit is often realized from a short-term focus. When a significant number of leaders, or key employees, of an organization adopt this short-term focus to meet performance objects, the organization as a whole can become shortsighted, with no person or group responsible for the long-term health of the organization. This results in headlines where executives are walking away with millions and millions in compensation despite an organization being in or near bankruptcy.

3.8. Power, Control, Direction, and Focus

A raging river flooding after a heavy rain is an awesome display of power. However, as many unfortunate homeowners throughout history have discovered there is little if any control that can be exerted over that power. The same goes for leadership; just having power, or the potential for power, is not enough. One must be able to exert control over the power. Leadership moves beyond mere power to encompass the ability to control when, where and how that power will be utilized.

Focusing on the aspect of power in a leader is important, especially in the context of this research, as it is arguably the power and control of the leader that determines the cycle of trust that the business develops and maintains. And while it would appear to narrow the focus considerably, it only changes the approach to evaluating leadership, thereby defining what components of power are important to leadership.

Closely allied with control is directing and focusing power. This is the fundamental call to action. Once the leader has determined the goal, possess the power
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and control to mobilize support, what path will be taken to the goal? Failure to ask and answer this simple question is a failure of direction and focus. For example, in a sports team a coach may decide that the goal is to be league champion, which players have contracts and are paid salaries, and so power and control is established. However, if the coach merely shows up and tells the players to win the league championship, chances are probably not good that this will happen. No direction on how to achieve the championship has been given; the players’ activities in pursuit of the championship have not been focused either individually or as a group.

The same goes for leaders in the business world; they cannot merely demand success, they must develop a focus on the desired success. Then, using their control, provide direction for their power base toward that focal point.

3.9. Who is a leader

We have looked at issues surrounding organizational leadership and the changing corporate landscape. We have looked at the changing leadership landscape, and have just indicated that power and the associated control, direction, and focus are necessary leadership elements in today’s organizational landscape. Looking at these elements, there is one area of an organization that is most likely to have at least the potential for this power system, and so for the purposes of this research the simplistic definition of leadership indicated earlier will be used; whereby leaders are defined by the positions they hold and to that end only upper management in organizations will be subjects of the research.

However, the term upper management maybe something of a misnomer, as recent research has differentiated between leadership and management. Kotter (1990) in his book *A Force for Change: How Leadership Differs from Management*, provides an excellent introduction into the generally accepted separation points between leadership and management, highlighting the differences and similarities while noting their interconnectedness. While Kotter presents many key differentiators and notes that both leaders and managers utilize leadership, a key differentiating point he repeatedly cites is, unlike management which relies on formal authority to accomplish goals, leaders inspire and motivate followers to complete goals because they want to, not because they have to. To help avoid potential issues of having to make a determination between management and leadership, only large publicly held organizations will be included. Given the wide range of stakeholders (from employees, to partners, to investors, to customers), these leaders must rely to a great extent on inspiration, influence, and motivation to accomplish their goals.

3.10. Leadership Defined

While adopting a simplistic definition of leadership is expedient, it does not help in defining the key characteristics of leadership, and while this research’s intention is not to define or develop these characteristics, there is a need to define a baseline of generally accepted key leadership characteristics with which to evaluate the selected leaders against. There are numerous leadership models that have been put forth as explanations and predictors of leadership ability, all with their own key characteristics,
and interactions. Trying to distill these down to a common set of characteristics would be prohibitive, given the different assumptions and approaches taken. However, there is one common element almost universally accepted: leaders wield power through the individuals they lead, and it is how this power is wielded that differentiates leaders.

Linking all our previous definitions together, including limiting our focus to upper management of large publicly held organizations and encompassing the external forces leading organizations, for the purposes of this research leadership, will be defined as the use of power to get others to do what you want.

With a working definition of ethics, and a working definition for leadership, the next step is to link ethics and leadership, if possible.

4. Linking Ethics and Leadership

In the Industrial capitalism era, corporations worked hand in hand with their nation states, and these companies initially had virtual monopolies sanctioned by the state; for example, the British East India Tea Company. The economic and military strength of the industrialized nations gave them a unique position, and most felt that it was their right to subjugate the natives in the colonies. In a classic might-makes-right scenario, these nation states imposed their ideals, beliefs, morals, and ethics upon the local inhabitants under the belief that they were civilizing them. With the transition to the modern era, this belief and subsequent reality has completely reversed, and no longer do nation states or corporations blindly impose their ideals, beliefs, morals and ethics within the local global markets.

For many organizations today a key element of success is being able to cater to the unique needs and demands of these groups. Even the largest corporations must be aware of the local cultural expectations of customers, employees, and the population at large.

Take, for example, Coca Cola in India. From a customer perspective, they expected to capitalize on their positive media image, taste, and previous experience to become the number one soft drink in India, as they had in most countries in the world. However, they did not take into account the cultural differences and failed to meet this goal as local drinks (Thums Up and Limca) remained more popular. From an employee perspective, their negative human rights practices, allegedly including torture and murder, underpayment of employees, violation of Indian labor laws, and hostile attitude toward attempts to unionize, has led to protest against what is felt to be unethical treatment of employees (Jayaraman, 2002). From a population perspective, Coca-Cola’s over utilization of groundwater has left some communities with severe water shortages, and claims that they are polluting the land and water with their operations. The extreme protests have forced one plant in Plachimada to close for more than a year. And the controversy has not stopped there, with 12 universities in the US, UK and Italy banning Coca-Cola products from their campuses, specifically citing the corporations behavior in India and Columbia (IMC India, 2005). As can be seen, in a global marketplace it is becoming imperative that corporations understand both the local
ethical expectations, as well as the impact that violation of local ethical expectations can have on the world’s ethical expectations as a whole.

The improved and varied communication capabilities of today’s corporations, from e-mail and instant messaging to overnight mail, combined with a shift toward more knowledge oriented tasks and streamlined international transportation means that organizations can take advantage of the global market when looking for employees. There is little issue hiring a designer in Poland, a programmer in India, or a scientist in Russia for a product produced in China to be sold in Europe. An excellent example is India’s emergence as one of the world’s preeminent call centers. If you call Chrysler, American Express, or GE for customer support, chances are that you will be talking to someone near New Delhi in India. And chances are, that next telemarketing call about a new home loan, also originated in India.

The global expansion of workforces means that corporations have to deal with multiple cultural issues, and as a result numerous ethical issues. These issues include the interaction between the organization’s culture, the cultural backgrounds of employees, and the associated local expectations.

Beyond the practical ethical issues involved in the interactions that occur during overseas outsourcing work, there is an underlying ethicality issue involved in overseas outsourcing itself. Two examples highlight the key concerns. First is the increasingly common practice of U.S. based tax preparation, wherein CPA’s outsource the actual tax preparation to India. Here there are numerous ethical issues, from a customer’s perceived confidentiality, to the moral and ethical obligations of the CPA accepting the work. Keep in mind this conflict comes from an industry that is highly regulated with a licensing body that has an official statement of ethics. Imagine the potential conflicts in areas without this sort of oversight.

Second, is the perceived ethicality of outsourcing by the local populations whose jobs are affected by the overseas outsourcing; both the actual workers whose jobs are lost and gained, and their communities as a whole. For example, in the U.S. there is a growing perception that increased unemployment, especially in some industries, is the direct result of overseas outsourcing; which in turn has led to lobbying the government to enact legislation to protect US jobs and hinder this overseas outsourcing. On a greater societal level there has been an increase in consumer demands that organizations not support countries or situations that are perceived to be unethical. An example is the backlash against Nike for the use of sweatshops overseas to increase profit margins through cutting production costs. In those countries receiving the outsourcing there are also new ethical issues. In India, for example, workers in some outsourced industries are suffering from psychological and health problems, to the point that anxiety and depression are becoming common. Though possibly common in previous labor in India, there may be new expectations for the outsourcing company to better support their laborers because that is the standard required in their own home culture.
As the global economy has progressed there are two significant trends in skill sets and workers. On the one hand there are the traditional skill sets surrounding industry, and on the other hand are the knowledge skill sets of the new global economy. While organizations still need to utilize the traditional skill sets, these are increasingly being outsourced to lower cost centers, as noted above. More and more companies are demanding knowledge-skilled employees with highly specialized skill sets tied to the core competencies of the organization. As organizations increase resources to develop and retain these highly skilled workers, while reducing costs by outsourcing traditional skilled workers, a dichotomy is being created between the new skills workers and the old skills workers. This can be seen on both a global as well as local level. The ethical questions that organizations must deal with in this situation revolve around the responsibility of the organization toward skills poor nations and skills poor workers. For example, what, if any, ethical responsibility does a research firm have in firing two of its research scientist to utilize those resources to hire an entire research facility and staff in a former Soviet Union province? What, if any, ethical constraints are there in designating some nations as "unskilled" and moving all unskilled work (generally manufacturing) to those nations, and all skilled worked to “advanced” nations. An example might be the steel industry where production takes place in nations where the “unskilled” labor doesn’t have the same safety requirements of an “advanced” nations, thus reducing cost.

All these examples, from the issues faced by Coca-Cola in India to the hiring of research staff in the former Soviet Union, highlight potential leadership and ethical problems that can occur when distance, or any inaccessibility, is placed between workers and leadership. They also indicate some of the potential difficulties leadership encounters in the realm of ethics when developing a single coherent ethical process and organizational ethical perception. In addition to the challenges arising from the changing workforce, demands of stakeholders, rise of service and changing leadership landscape, today’s leadership must cope with ethical issues arising out of globalization, such as those due to cultural expectations. Also, as the Coca-Cola example exemplified, these examples also illustrate the effects that unethical behavior in one area of the organization, or one geographic region can have on the organization as a whole, and underscore the increasing importance of leadership to manage ethics. More specifically, they show that the globalization of the workforce has significant ethical dilemmas both for the local workforce whose work is outsourced, and for the workforce in the outsourced location. This again closely links ethics with leadership as the trend towards overseas outsourcing forces today’s corporations to deal with the ethical issues encountered by the individuals and communities involved with the outsourcing. And not just the outsourcing proper, but the general increase in mobility of management and employees worldwide as well, where a shift toward short-term focus and performance based compensation is drastically changing the corporate landscape. This can be seen in the lack of leadership continuity, as evidenced by the CEO turnover rate increase amongst fortune 1000 companies. Here the consequences, when considering ethics is the potential that few individuals will be around to see the consequences of their actions and decisions, but will have their money in hand.
4.1. **Connecting Ethics to Leadership**

Up to this point our review of ethics and leadership has been undertaken separately, partly because traditionally both areas of study and research have been viewed separately, but primarily to show that each area has independently arrived at the conclusion that elements of leadership and ethics are linked. From the above real-world examples it appears obvious that empirical evidence not only supports links between leadership and ethical issues but also tends to indicate that they are inseparable. Of the elements underlying both ethics and leadership, power is perhaps the single most important. Ethics requires power, in that the individual must have the power to act. Leadership requires power; the power given by those led. In both cases, it is the choices and decisions made by the individual on how their power is used that determines both their ethical and leadership qualities. Just as ethics cannot exist without leadership, leadership cannot exist without ethics as the very act of leadership generates ethical dilemmas that must be resolved, even the simplest acts have ethical ramifications.

4.2. **Relative Importance of Ethics in Success**

The purpose of this paper, as stated in the title, is to investigate the relationship between leadership style and maintaining organizational ethical and moral behavior. This begs the question, what difference does it make if there is a connection or if there is not a connection? Of what value is maintaining an organization’s moral and ethical behavior?

In today’s business world, ethics, or more specifically perceived ethical practices of organizations and their employees, are coming under greater scrutiny and garnering ever-greater public attention. While different underlying premises may drive individual groups, there is a growing perception by customers, investors, employees, and the public at large, that ethics played an important, if not a critical, factor in recent organization failures. It follows then that maintaining ethical practices in an organization is, at a minimum, a necessary precaution to be taken against long-term organizational failure. Following this line of reasoning many organizations have inferred that ethics is not merely a precaution against failure, but that maintaining ethical practices is rapidly becoming a minimum core competency necessary to maintaining competitiveness. And, with the ability to avoid legal battles and reduced public confidence, ethical practices, for many, provide the competitive edge necessary for long-term success.

These ideas may appear to be dramatic, or an overstatement. In declaring that ethics is a critical factor in an organizations failure or success, is too much credit being attached to ethics? It could be argued, however, that organizations, governments, and investors do seem to be taking ethics seriously. High-profile failures due to fraud and the subsequent torrent of financial record restatements has led to the United States government to enact laws requiring that organizational leaders sign-off on financial statements. Boeing aircraft released their CEO for having an affair, on the grounds they felt he could no longer effectively lead the organization. The courts have found WorldCom leadership criminally liable for unethical behavior. On the positive side,
organizations such as Starbucks credit their initial success, and continued success, to their ethical business practices.

What impact, if any, do ethics have on success? Its primary role is similar to that of quality, where developing a reputation for quality, stability, and reliability can provide a sustainable competitive advantage that not only increases an organization’s ability to weather organization and industry downturns, but may also help maximize long-term success, especially in industries where price is not the primary differentiator. For example, the quality, stability, and reliability of T-Bills have shown remarkable resilience in the investment market despite their “poor” return performance. Such diverse products and brands as Starbucks, Rolls Royce, Tide detergent, and Perrier have achieved sustained global success, even commanding a price premium, all by delivering products that match the expected quality. All these examples relate back to our definition of ethics as a systemic organizational process to build and maintain the cycle of trust, thereby delivering an honest return of the stated product.

An organization wishing to utilize ethics as a component in its success would do well to study carefully how a positive ethical behavior system in an organization can be of benefit, whether it be a tacit connection, where an organization believes its ethical stance is a key element of maintaining or strengthening its customer base. Or, in a more overtly tangible sense, where the organization’s ethical stance helps direct new product or shortens the decision making cycle by eliminating choices that do not match the ethical directions of the organization.

4.3. Value of Ethics

While this view of ethics and success is important, it does little to help an organization place a value on ethics beyond a moral or ethical responsibility, or relegates its value to some far off future intangible possibility. It does not necessarily help the organization place the all important dollar amount on the bottom line. How much is ethical behavior worth? Instead of trying to directly link ethics with success, perhaps a more useful methodology would be to examine the potential consequences of ethical failures.

At the personal level, an ethical failure could mean a complete loss of one’s livelihood, especially in those professions governed by an overseeing professional body, such as lawyers and physicians. Even in those areas with no overseeing body, many organizations, in attempting to develop a coherent ethical standard for the business, have developed ethical codes of conducts for employees. As Harry Stonecipher the CEO, and a VP of Boeing found out, one’s position may be tied to behavior even if it occurs outside the “job”, despite it having no “impact” on job performance.

At the organizational level, ethical failure may also result in a complete dissolution of the organization, or significantly impact the ability of the organization to compete. Spectacular examples of these failures include the recent Bre-X and Enron scandals that saw the total collapse of the organizations. Hollinger, Tyco, WorldCom,
Adelphia, and other organizations, while not experiencing the same total collapse, have been greatly hindered in their ability to compete, some even having to seek bankruptcy protection, and their survival may yet be in jeopardy.

It appears from empirical evidence of these examples that while ignoring ethics in the short term may appear acceptable, it severely impacts the long-term performance and viability of an organization. That would indicate that conversely, a positive concerted effort to maintain ethics is a necessary element of long-term success, and may in fact become a key competitive element for some organizations.

What are the key organizational elements involved in ethics, specifically if an organization wishes to include ethics in the long-term success plans of the organization, or if they merely wish to avoid short-term ethical failures, where should efforts be concentrated?

4.4. **Elements of Ethics**

4.4.1. **Organizational Elements**

Probably the most common organizational element involved in ethical dilemmas is the organization's financial operations. They may be facilitating or covering up ethical failures in other areas of the organization. When a business unit illegally dumps toxic waste, or illegally bribes a foreign official, there is generally an attempt to hide this original failure by creatively providing answers to questions about expenses or realized profits. Another common scenario occurs when presenting a financial picture to investors or any interested parties. Organizations endeavor to present the best possible picture to those invested. However, in this drive toward presenting the positive, ethical dilemmas and failures can occur. Sometimes it is as innocuous as providing, or not providing, information in a manner that misleads the interested parties. In other instances, there is a wholesale attempt at outright falsification of reality. Often, this false reality is used within the financial portions of the organization, a methodology that WorldCom, Tyco, Adelphia and numerous other organizations have utilized to their short-term benefit.

This appears to suggest the possibility that ethics may then be a hindrance to success. And indeed given the recent scandals that rocked the financial markets, and the subsequent restatements by organizations that had not been “caught”. There are potentially significant gains to be had from maintaining a certain level of unethical behavior in an organization if one does not get caught. However, if unethical behavior truly was a route to success, why do organizations attempt to hide their unethical behavior, and why is it key to not get caught? The answer to this question lies in the sustainability of success, and the generally accepted principles of the business process. Just as Enron and Anderson discovered, a breakdown of trust, a systemic ethical failure, is not a long-term sustainable proposition.

There has been considerable focus given to the financial arena and its ethical failures; likely due to the investors narrow focus on profit, as well as the few spectacular failures of recent note. But there is another element of operations that can be directly
affected either negatively or positively: the human resources component of an institution. With finance, it is easier to see the results of unethical behavior than the positive effects of ethical conduct. The effects of poor ethics are usually obvious by the failures they engender. Human resources, on the other hand, can see direct benefits from positive ethical conduct, or the impact of negative ethical decisions. On the negative side, an entire organization’s ethical state is dependent upon the ethical decisions of its members. If an organization’s Human Resources creates an environment that does not address ethics, and supports making unethical decisions either directly or tacitly, it will see itself battling financial and social responsibility dilemmas as a direct result. On the other hand, a concerted effort to address ethics by Human Resources can promote loyalty and create an environment conducive to hiring premium candidates.

For example, Ford’s treatment of employees encouraged them to become his customers, as well as creating a work environment more desirable than competitors. Starbucks has accomplished the same, by providing more diversity in employment hours and greater benefit eligibility. In both cases, the organizations’ focus on ethical Human Resources practices attracted a premium class of potential employees, and engendered loyalty in employees. Also, the ethical practices of Human Resources set an example to be followed by the employees in dealing with other employees, customers, and investors. This in turn produced a direct effect on the satisfaction of the customers in their dealings with the corporations and provided an underpinning to enhanced customer loyalty to the corporation.

This concept of utilizing Human Resources to create an environment conducive to the desired ethical practices is more important than ever before. As we discussed earlier, the changes occurring in the global workforce mean that management, now more than ever, cannot dictate to employees their actions, but rather they must work with employees to develop, model and implement desired behaviors. They must rely on Human Resources to develop and maintain effective practices for hiring and employee development, so that the desired corporate culture is developed according to the mission and strategic plans of the organization.

4.4.2. Leadership Elements

While there are some potentially directly measurable results of an organization’s behavior, determining what elements of leadership are affected is not necessarily as easy. It is reasonable to conclude that by virtue of being ultimately responsible for the actions and behavior of the organization, all elements of a leader’s personal ethics impact their leadership. In other words, all elements of leadership are in some way impacted by ethics.

This all-encompassing view of a leader’s ethics and their ability to lead an organization is gaining ground in the business community. Previously, as long as the company was successful with expected returns and goals being realized, and as long as neither the leader nor the organization was subject to legal action, what the leader’s personal ethics were was considered largely unimportant. Today however, individual
leaders ethics are being held to higher standards. During the sentencing of WorldCom’s ex-CEO the judge directly referenced the CEO’s ethics as being the prime reason for the organizations failure. Likewise, Boeing released its CEO for having an affair, even though an investigation revealed from an organizational perspective there was no misconduct.

These examples demonstrate that in today’s business world, the key interest groups of organizations are beginning to believe that all elements of leadership are impacted by the ethical behavior and decision-making of this leadership. As the Boeing case highlights, the impact of ethics on leadership may be assumed, in spite of having no specific failing toward which to point, and with no regard to whether it is within the confines of the organizational life, or the personal life, of the leader involved.

4.4.3. Societal Elements

Globalization now includes knowledge, and consumers are more knowledgeable than before and desire even more. Capitalizing on this desire, special interest groups have jumped on the information bandwagon, packaging and disseminating their special beliefs on a dizzying array of subjects from politics and science, to health and culture, and beyond.

For an ever-increasing consumer segment this bombardment and availability of knowledge has forced an evaluation of their own personal beliefs, and code of ethics. This, combined with the wide range of choices for consumers, and the focus on service by organizations, has seen the proliferation of products and services directly targeting the consumers’ new ethical awareness. From “green fund” type offerings at financial institutions to the “generated from renewable resources” options consumers have in the electricity market, to the virtual ban on animal testing consumers have imposed on the cosmetics industry, the public is demanding greater ethical accountability from other individuals, organizations, and governments.

4.5. Ethical Leadership for Success

With greater focus being attached to ethics, and related fields, organizations that actively work to act in an ethical manner may indirectly achieve success; particularly long-term success due to their reputation. For example, both Costco and Starbucks attribute part of their success to their business ethics. According to Howard Schultz (Schultz as cited in Moss, 2002), CEO of Starbucks, their ethical treatment of employees in the short-term market appeared to put them at a competitive disadvantage compared to its competitors. However, in the long-term they have emerged as the market leader.

This same route to sustained success is seen as key by many organizations today. The rise in consumer awareness of ethics in production and the environment, has led to the current highly lucrative organic food supply business, as well as the “fair trade” premise of product development and acquisition within third-world nations. In the financial markets, organizations wishing to lure investors have begun practicing more open accounting. Others, hoping to offset investor’s fears, have restated past years
reports to more clearly show the organization’s position. Government and industry bodies are enacting laws and codes of conduct that more clearly delineate acceptable behaviors in an effort to bolster customer confidence.

A Hay Group study regarding success states that the primary element of a successful organization is trust and confidence in top leadership, with leadership's primary role being to ensure that focus and direction are given and communicated to ensure buy-in (Hay Group as cited in Clark, 1999). It should not be surprising that the basis of our ethical definition, a process of building trust, and our leadership definition, getting others to do what you want, is considered by Hays to be the primary basis for organizational success supporting the link between ethics and success.

4.6. Leadership Failures

We have evaluated leadership and what is expected of leadership. We have linked leadership with ethics and the effective linkage with success of the organization. The next step is to define in specific terms what constitutes leadership failure. Specifically since the organizations under inspection for this research have necessarily had a failure of leadership, we need to answer the questions, what is a failure, and is it an ethical failure as well?

In examining the changing view of leadership, it was discovered that trust was a key, and possibly “the” key component of success. It follows that a loss of trust either by investors, customers, or employees is a failure of leadership. While this may be true, it does not specifically define, at least in a quantitative manner, what leadership failure is. For the purpose of this discussion, a leadership failure will have been deemed to occur if there are organizational failures that lead to legal action or if there are failures that impact viability of organization. Examples would include Enron, where the failures within the organization led to both legal action, and impacted the viability of the organization.

4.6.1. Types/Causes of Failures

In evaluating leadership failures, it is important to determine, as far as possible, the basic underlying causes of the failures. In our case, there is added importance here because of the focus on ethics. If the cause of the failure were simply unskilled leadership, there would be little connection to a failure in ethics, even if the failure revolved around ethics, since the failure was not an intrinsic decision by the leader but rather a result of the unskilled leaders inability to perform.

In addition, there are those failures that are neither the result of unskilled leadership, nor intrinsically the result of unethical behavior. Failure to act is one such type of failure. This could be decision paralysis, caused possibly by a variety of factors, such as internal infighting and information overload. Another common failure to act is simply the result of a failure in priorities assessment, where particular issues never make it high enough on the priority list. An example of this might be the deferred maintenance and capital expenditures that occur at many educational institutions.
While this type of failure can definitely endanger the viability of an organization, it is not intrinsically an ethics based failure.

Potentially the most common type of leadership failure relates to simply poor decisions. This can be the result of leadership and decision making in the absence of appropriate and timely information. For many new owners and founders problems occur when leadership is based too much on an emotional basis versus a rational basis. In this case, the leader is blinded to the realities of a situation, making decisions based on personally held beliefs instead of actual information available. Again, these types of failures are not intrinsically ethics based failures.

Another equally common type of leadership failure is the result of having a wrong focus. In this situation, the failure could simply be inability to keep up with a changing marketplace, or not appropriately allocating resources. Again in these cases the failures do not revolve around ethics. However, as was noted earlier, today’s professional leaders have a split focus. On one hand they must focus on investors, on another hand customers, on another hand employees, and on another hand their personal gain. It appears that in recent times the pressures, and often competing demands, of these groups has itself lead to leadership failure that indeed may have a basis in ethics. To address investors demands leaders have failed to disclose key items in financial reporting, or outright falsified financial reports. To address customer’s demands substandard work and parts have come into play. To address workforce demands illegal employment practices and negotiating tactics have been utilized. And in reference to their own personal issues, we have seen leaders focus on evaluated elements to enhance their performance based pay structures. As can be seen in all these cases, ethical behavior plays a key role in the decision-making by leaders, and when decisions are made with poor focuses due to poor ethical decisions the resulting failures are directly tied to ethics. It is this final group of failures that will be of direct interest in this research. Our evaluation will look at those organizations whose failure was a direct result of poor decision making due primarily to poor focus as a result of ethically poor leadership decisions.

4.7. Ethical Person vs. Ethical Organization

The primary goal of this research is to uncover if there is a relationship between leadership style and maintaining an organization’s ethical behavior. We are not considering the moral or ethical behavior of the leaders specifically, but the organization as a whole. Now that we have a definition of ethics in business, and a definition of leadership as it relates to business, an important question must be answered when we look into the potential connection between ethics and leadership. Can an organization and its employees behave in an ethical manner if the leader acts in an unethical manner?

This is an important question to consider because at its basis is the assumption that a leader, through their actions and behaviors, can directly influence the actions and behaviors of associates. Considering that we are evaluating organizations that have publicly failed, we are assuming that the leadership of these organizations was able to
influence them in a highly negative and self-destructive manner. Just looking at the news headlines with Enron, Adelphia, Tyco, Anderson, and many more, is enough to see just exactly what organization decision makers are willing to do under the apparently unceasing and ever increasing demands of investors to perform, no matter what the cost.

Don Shula (2001) in his process of coaching indicates that you must “never ask people to do more than you would do.” As altruistic as this sounds, the opposite is probably closer to reality; that people will do no more than what they see you doing. One merely has to pick up a recent business journal to see the increasing research that supports leadership’s role in employee motivation and performance. The basic underlying factor in most of the theories is two-fold, no matter what the actual principle for enacting the theory. First, that leadership must set expectations for the desired behavior, and second, leaders must model, if not the actual desired behavior, at least the framework for implementing them. It is the rare employee who moves beyond the demands and expectations of the leadership. Either they are rebuffed due to fear, or they move on to organizations that recognize and value their contributions.

There is considerable research that clearly relates expectations and support of leadership with desired and undesired employee performance. Much of this research has, until recently, been approached from the perspective of psychology rather than business research, but there is a long history of relating employee actions with leadership actions. Eisenberger, Fasolo, and Davis-LaMastro (1990) in their 1990 paper in the Journal of Applied Psychology clearly showed a positive relationship between employee diligence, commitment, and innovation with an organizations support and leadership. This research has been expanded to include evaluation of the relationship with organization politics, organizational climate and culture, organizational trust, discrimination, participative decision-making, and many other aspects of concern to modern leaders.

For the purposes of this research paper, if we accept the empirically and research supported connection between leadership behavior and employee behavior, then it follows that the ethical behavior of employees, and by extension the ethical environment of an organization, is largely controlled by the leadership of the organization.

5. Evaluating Ethics

5.1. Selecting Organizations for Evaluation

Now that we have a clear definition of ethics, a definite connection with leadership and with organizational success, and the increasing importance the general population has begun placing on ethics, the next step is to devise a method by which the ethics of an organization can be evaluated.
To pursue the goal of examining potential connections between leadership style and ethics the evaluation instrument must be able to evaluate the relative ethical stature of the organization. Herein lies a problem; by what standard is the organization to be evaluated? Who or what will determine the ethicality of an organization’s action, especially across cultures, time, industries, or countries?

While our definition of ethics is practical and is easily applicable regardless of industry, country, or culture, it does not lend itself to easy evaluation, especially predictive evaluation. Further, because it is rooted not in what is ethical, but what is unethical and thus situation specific, and due to its specification as a process, it is inherently difficult to compare the relative ethical stature across organizations.

One implementation would be to limit the organizations for evaluation to those who have matching situations, thus enabling comparative analysis. However, the organizations for evaluation would be limited by the grouping of similar ethical failures, additionally this strategy would impose further severe limitations such as organizations being limited to specific industries, cultures, or countries.

Another option would be to choose specific interest groups, such as key customer groups or employees, and develop a common set of overlapping ethical standards against which to evaluate an organization. This possibility while not necessarily limiting the range of organizations as the first option did, would nonetheless impose limitations based on the interest groups chosen. This combined with the problems created by utilizing the lowest common denominator of ethical standards would, like the first option, most likely result in an analysis that would be uninformative.

The difficulty with approaches that seek to limit either the studied organizations or the ethics studied, is that the results will most likely be meaningless to those outside the interest groups, or to those who do not agree with the ethical standards chosen for evaluation. Additionally, it may be impossible to develop a common set of groups or ethical standards due to the variations across countries, cultures, or time. Any of these difficulties, or a myriad of others, would only serve to invalidate or reduce the usability and applicability of this research to the widest possible audience.

Reviewing potential methods and tools for evaluating ethics may provide the basis for selecting organizations. The available methods and tools will identify the minimal information needed for evaluation, thereby limiting organizations to those where such information is available.

5.2. Methods of Evaluating Ethics

What tools are available to undertake this evaluation, given the difficulties identified in evaluating ethics? Historically, ethics has been the purview of philosophy and this field is a potential location for finding evaluative materials on ethics. However, the nature of ethical discussion within philosophy tends to center around the reasons for ethics and for the development of ethics. Further, discussion and evaluation usually relies on individual ethics. For our purposes, application of these methodologies would
be difficult as it is unlikely that the personal ethical building blocks of organizational leaders and their ethical reasons would be available.

To uncover the ethical mentality of a leadership team, or an organization as a whole, we would have to look to the fields of sociology and psychology. These might provide greater success as their focus is on action and motivation. While the resulting actions of leaders and organizations would potentially yield to evaluation, the key concept of motivation again requires intimate knowledge of the individuals and their thought process, which we are unlikely to have access to. And if access were somehow available, our study would still be limited to those for whom this knowledge was available.

The relatively new study of business ethics, in which ethics evaluation processes have been developed, is promising as a resource for evaluation methodologies. The work of investigating an evaluative instrument for business ethics may have already been undertaken and an appropriate instrument developed. However, business ethics has not had the same focus that leadership has had in the business realm. There are minimal published assessments for ethical performance specifically targeted at business and leadership, as this area of research is often overlooked (Brown, Klebe-Trevino, 2002). Peck (2002), in his article on ethics for the William & Mary School of Business, noted that even at the education level most MBA programs merely offer stand-alone elective courses in ethics that the *Journal for Education in Business* indicates results in little content retention. This apparent lack of interest has made quantifying ethical behavior more problematic.

In looking to business ethics for an assessment, ideally such an instrument would address the concerns already identified with regards to the ambiguity of ethical definitions, and the lack of intimate knowledge of the principle players. Although, there are a number of published assessments (two recent additions are the Ethical Leadership Scale (ELS) developed by Brown and Trevino (2002) and the Ethics Effectiveness Quick-Test developed by the Ethics Resource Center (ERC, 1997), the organization responsible for the 2000 and 2004 national business ethics surveys,) they tend to avoid the definition of unethical or ethical behaviors. Attempting instead to assess the ethical support structure in an organization, rather than the specific ethics of the organization. This is the approach the Ethics Resource Center has taken with its Ethics Effectiveness Quick-Test where an organizations statements and procedures related to ethics are evaluated including: having a defined ethics strategy, goals, and objectives; ethics policies and procedures; ethics education and training; and respect for employees’ personal values. While this scenario does fit with our definition of ethics, and the idea of ethics being a process, it does not address the situations where an organization has no ethical process, nor when such information is not publicly available.

Looking back at our ethics definition, an indirect methodology may be available to us. Noting that we could define unethical behavior as a systemic process of taking advantage of the cycle of trust, or some element in the cycle of trust, between an institution and its parties of interest. If we can accept this as a usable modification to
our definitions, it will be possible to narrow the research to organizations that have had a known ethical failure. We will be able to focus on published literature indicating organizations that have broken the trust they engendered with their interested parties (at a level significant enough to meet our specific definitions of unethical behavior; i.e., illegality and continuity of operations). Therefore, with an assurance that the organization had an ethical breach, at least by our general standards, we can then focus on the evaluation of leadership styles present within these organizations to determine if a predominant style is linked with ethical failures.

6. Evaluating Leadership

For the evaluative purposes of this research, we must have a method of categorizing leadership in order to compare different leadership styles with the apparent unethical behavior observed within an organization. There has been considerable research into what makes a leader, and what traits a leader exhibits. History has repeatedly run the full gamut from the belief that leadership was inborn, to the view that leadership was a learned expertise. Aristotle and his Greek peers believed that leaders were born. While at the same time in China (~ 360 BC), Sun Tzu, the pseudonym used by the author of the Art of War, attributed to Sun Ping of Ch’I by many scholars, was arguing that leadership involved the acquisition of five traits. He further added that while leadership was important, it was leadership strategy that was supreme. In more recent history, these same ranges of leadership views are encountered. There was the reemergence of trait theory in psychology in the early 1900’s, and the more recent leadership models, which propose that leaders are not born but built. Considering the wealth and range of research that has already been undertaken in developing theories and evaluative instruments for identifying and categorizing leaders it is not necessary to develop an evaluative instrument for the purposes of this research. We merely need to choose a leadership model and an associated evaluative instrument.

6.1. History of Leadership Model Progression

For the average person, the traditionally expected model of leadership conforms to what is generally known as the Heroic Leadership Model. This is not a scientific model in the sense that it has not been researched and tested. Further, there are not any clearly defined boundaries to identify what aspects, traits, and actions make a leader within this model. Rather, as Badaracco (2001) points out, one idealizes a leader by wanting them to demonstrate high principles and noble behavior, and to be self-sacrificing and inspiring to followers. Our culture is filled with both real and fantasy heroic leaders. It is the basis of innumerable books and movies. As Badaracco points out, these “Heroic stories have long been recognized as a means by which to pass on society’s values and, in particular, to transmit the communal standards for judging people who occupy visible positions of power” (Badaracco, 2001). When looking back in history, we can easily identify heroic leaders; individuals such as Mother Teresa, Abraham Lincoln, Winston Churchill, Socrates, Kublai Khan, or Mahatma Gandhi.

However, without realizing it, we desire and accept, with the passage of time and ones own prejudices towards a desire for a heroic leader, a focus on the perceived heroic actions of the leaders, while ignoring other (possibly less heroic) aspects of the
person. While these blinders give us empire builders like Alexander the Great, they also may distract us to the problems with the heroic leadership model. Its very name conveys a major problem. By definition, heroic is extra-ordinary and leaves the average person disconnected from the leadership model, while the heroic leader and leadership model is also unconnected to ordinary people and lives. Further, when we think of heroic leaders we tend to focus on the situation or instance of heroic leadership and not what lead up to that situation or allowed the leader to be heroic in that situation. Supporting leadership and management also tends to get ignored when focusing on heroic leadership, despite the critical nature this plays. After all, neither Gandhi nor Alexander could have won their battles without their trusted commanders and lieutenants. However, possibly the greatest flaw in the heroic leadership model, is the inability to allow for leadership frailty. Heroic leaders cannot have certain perceived weaknesses without totally destroying their leadership persona.

As noted earlier, rather than developing a method for categorizing leadership style, one theory and associated evaluative instrument will be chosen as the basis for this research. An overview of some common leadership theories will be given, including a brief synopsis of their underlying premises, strengths and weakness, followed with their relationship to leadership failure. This process will highlight the common threads in leadership theory, as well as provide the necessary background for choosing a model that provides the most utility for the research.

6.2. Key leadership models

Key leadership styles have been well defined and studied over time. Sorenson, in her article on the history of leadership studies, noted that by 1974 Stogdill’s Handbook of Leadership listed 4,725 studies of leadership, and by the year 2000 there were more than 900 academic leadership programs in the US alone (Sorenson, 2000). There is also considerable professional interest in the effects of leadership within business. Evidence of this can be seen in the Wharton School of Business’s list of non-academic leadership programs and research (The Wharton School, 2004). These sources provide a wealth of source information, as well as peer accepted key leadership style definitions, within the published literature. However, Dr. Swenson (2000) indicates no single unifying theory has been developed, and each new generation of models is becoming more complicated and ambiguous.

As can be seen, it would be impossible to identify all the leadership models that have been proposed, due to the sheer volume and to the constantly evolving field spawned by interest that leadership modeling has enjoyed in recent years. However, there are some key models that have enjoyed and still enjoy, popularity, acceptance, and have survived research scrutiny. Even narrowing the selection based on these criteria would still result in an extensive list. In an attempt to further reduce the list to a manageable size, the more modern theories that have moved beyond single, bi- and tri-polar dimensions, and bifurcations and contingencies to more complex modeling systems that draw on chaos and complexity theory will be avoided due to the shear complexity of these theories, as well as their often underlying basis in the simpler theories.
It should be noted that a majority of these models and theories have originated in North America, and as such do not necessarily take into account possible cross-cultural differences. Additionally, the early models and research were exclusively conducted with men (even more recent models are almost all based on observation of men,) and there are a growing number of researchers who question their validity when applied to women in leadership roles.

It should also be noted that despite the failure to develop a unifying theory, the development of subsequent theories while exploring new and expanded areas of interest has not invalidated the previous theories, which still have been found to address those areas for which they were developed (McKinsey & Co, 2003). This makes focusing on a single leadership style, such as Blake and Mouton’s managerial grid or Tannenbaum and Schmidt’s (Clark, 2002) continuum of leadership behaviors, a valid option for forming the basis of the leadership assessment component of the research.

Model selections have been based on the general popularity of the models as defined by their use or reference in the popular press, business school publications, and consulting services organizations publications and advertisements. Following are selected key models with a basic description outlining key aspects of the model with emphasis on the relation to this research.

6.2.1. Trait Theory
This theory is unique amongst the models presented here, not only for being one of the earliest models to be scientifically studied, but for being one of the only models that focuses exclusively on the leader, while ignoring such aspects as the situation or the followers.

The theory in general is not particularly useful for a number of reasons, including the above-mentioned fact that it ignores key aspects, such as the considering the role of the followers. And, as Peter Wright (1996) commented, years of research by numerous individuals have failed to find an unambiguous links between specific traits and leadership success. Despite this, acceptance of Trait Theory is strong. Pick up any popular book on leadership and you will find a list of characteristics and behaviors that the author has determined are key to leadership success, such as Gardner’s (1993) list of leadership attributes in his book On Leadership.

Despite the potential failings of this theory, it is the basis for other more complex approaches that attempt to group behaviors, such as the Style or Behaviors approach to leadership. It is also the basis for approaches that relate groups of behaviors to situations, such as in the Situational leadership models and the more refined transactional and transformational models, or in the even more recent cognitive resources theory and the leadership skills theory.

What elements of Trait Theory directly address leadership failure? This is a difficult question to answer as this theory deals specifically with attempting to identify
traits of successful leaders, not those of failed leaders. However, if we accept the validity of the theory failure would result from a leader lacking one of the necessary traits. Alternatively, as later models have shown, failure could be the result of misusing traits, not matching traits with the situation, or any number of other issues given the ambiguity of results that research into trait theory has yielded.

6.2.2. Style Approach

Perhaps the first popular group of leadership models collectively labeled as style approach began with Kurt Lewin’s study of school children conducted in 1938 (Lewin as cited in Swenson, 2000). This study grouped specific leadership behaviors into three groups: Authoritarian or Autocrat, Laissez-Faire, and Democratic.

While it seems odd that the result of a study on school children was so readily transitioned to the corporate realm, the lasting impact cannot be understated as it provided a springboard for a far ranging group of models that are still in use and popular today. Three of the most popular and enduring of the derivative theories are Tannenbaum and Schmidt’s Continuum of Leadership Behaviors which focused on authority, McGregor’s Theory X and Theory Y leaders, and Blake and Mouton’s Managerial Grid with its groupings of Authoritarian, Team Leader, Country Club, and Impoverished leadership behavior groupings.

What elements of the style approach directly address leadership failure? Unlike Trait Theory, there is evidence of a connection between effective leadership and the particular style used. However, there are ambiguities; specifically surrounding the concept of matching a style to a situation. Depending upon the specific style approach model used, failure is generally deemed to have occurred when authority is over utilized without regard to people (authoritarian or autocratic), or when it is under utilized without regard to people (Impoverished or Laissez-faire), or in the case of Blake and Mouton when leadership is under utilized despite a high-regard for people (Country Club).

6.2.3. Situational Approach

In recent years there have been numerous proposed leadership models drawing on new scientific models, such as Complexity and Chaos Theory, and from advances in psychology and sociology, such as social exchange and dyadic relationships. Despite this, perhaps the most common group of leadership models subscribed to today are merely extensions of the styles models that include another element. The situation or surroundings of the leader and their decisions, constitute the situational approach or contingency models.

Some of the more common models are Fiedler’s Contigency Model, Hersey and Blanchard’s Situational Theory, House’s Path-Goal Theory, and the Vroom-Yetton-Jago Normative Decision Leadership Model (Wright, 1996). While listed as a separate section below, in reality the concept of transactional and transformational leaders are also just bi-polar extensions of situational models on which group leaders base where to place their focus. Arguably, even the newest modern leadership models are extension of these early situation models where now the situation is highly segmented and refined.
An overview of management consulting firms will quickly reveal that a majority of leadership seminars, consulting services, and development programs follow a modified or proprietary model based on one of the common situational models. This is most likely due to the fact that these models appear to closely represent current successful leaders, as earlier models on behavior appeared to closely model the successful leaders and hierarchical structures of their time.

What elements of situational approach models directly address leadership failure? In situational and contingency models there is no absolute right or wrong style for a leader to use. Rather a leader must use all styles depending upon the situation or decision requirements. The difficulty with these models is in matching specific situations with the corresponding style to utilize. This process becomes more complicated the broader the range of human elements involved. According to these models, failure results from either using a style inappropriate to the situation or decision requirements, or as a result of misunderstanding the situation or the appropriate response.

6.2.4. Transactional vs. Transformational

Multinational global organizations are placing ever-increasing demands on leaders. Today’s organizations operate 24 hours a day, in hundreds of countries, and across thousands of cultures. Leaders are still expected, by employees, customers, and investors, to be responsible for the organization and its success in spite of, or because of, this diversity. As with any leader, physically speaking it is a virtual impossibility, all the more so for a global multinational, for today’s leader to meet the demands of all groups at all levels. Leaders must make choices of where to focus their personal available resources. It is this realization that came to the attention of researchers and spawned the concepts of charismatic or transformational leadership and transactional leadership, each of which attempt to categorize leaders based on their overall focus.

While some believe that the two types of leaders are at polar opposites, a more real world evaluation would suggest that there is no clear dividing line between the two, and both can be used by the same leader. In principle, a transactional leader is focused on the tasks to be done, and works to accomplish these tasks through mutually beneficial “transactions” between those with necessary resources and those necessary to complete work. On the other hand, transformational or charismatic leaders are more focused on the ultimate mission or vision and work to instill this mission or vision within the workforce, exciting them so they complete work through a personal desire for accomplishment.

As can be seen, these models are not a replacement for previously discussed models, but rather develops a framework within which they operate. Therefore, the reasons for a failure in leadership would be the same as those already listed. However, because they are more focused, these models can blunt some of the potential failure by matching an overall focus with the need of the organization. For example, a successful organization that has lost its edge, because it is too busy chasing after the ultimate
vision that it fails to get necessary work done, may benefit from a transactional leader. This was the case when Apple removed Jobs and replaced him with Scully. Conversely, when an organization that has been traditionally successful but loses its edge because it is too focused on operation, such that it has lost sight of the bigger picture, may find that its people need to be re-motivated and a transformational or charismatic leader may be of benefit. This was the case when Apple brought back Jobs to reenergize the organization. This also points out the one additional element of leadership failure unique to these models, and that is when an organization has a leader with the wrong focus at the wrong time or a transactional focused leader when a transformational leader is needed.

### 6.3. Select Leadership Model

In reviewing published material for assessing leadership styles, such as the Blake and Mouton's Managerial Grid (Clark, 2002) assessment or the grouping and bipolar assessments, (Clark, 2002)(Center for Rural Studies,1998) the goal ideally was to find an assessment when applied to an organization that could be broken into ranges identifying specific styles. Finding an assessment that provides a position on a continuum was not overly difficult, as there are many published examples, such as InterLink Training & Coaching’s Leadership Assessment Tool (InterLink Training & Coaching, 2003). However, finding an assessment that can identify specific leadership styles such as the autocratic, democratic, or laissez-faire grouping (Swenson, 2003); the coercive, authoritarian, affiliative, democratic, pacesetting, or coaching grouping (McKinsey & Co, 2003); or the transformational versus transactional (Pennings, 2004) was more problematic due to the focus on consulting and training of assessment developers, and the resulting continuum versus category nature of the various competing leadership style models.

To assist in picking a suitable evaluative instrument for leadership, revisiting the definition of leadership is in order. The definition of leadership developed for this research paper focused on power and getting people to do what you want. In looking at the various leadership models, it immediately becomes apparent that the underlying element of all these models is power. The models have merely evolved more complexity as it has become apparent that the nuances of power within any relationship are quite complex and that all individuals in a relationship have some power at their command.

To accommodate this discovered complexity of power in relationships, leadership models have evolved in ever increasing complexity to account for the give and take that occurs within this environment. However, no matter how complex the theories have become, they are merely trying to refine the concept of how leaders utilize their power potential, and how leaders allow those led to utilize their power potential. This is born out by the fact that all the major models discussed here are still considered to be applicable and important today. The McKinsey & Company’s leadership backgrounder for the 2003 leadership forum noted, “…none of the major post-war theories have been obviously superseded or discredited by subsequent work...” (McKinsey & Co, 2003).
With this in mind it would seem appropriate to choose the simplest model that focuses on power, which is the fundamental aspect of leadership at the heart of this research. It should not be implied that the advances made by recent research and leadership models are in any way unimportant or in some way inaccurate or unnecessary. Rather, by stripping away the additional layers that have been added over the years to better define the nuances of power wielding, this research's focus can remain on the basic power wielding of leadership. As Jurkiewicz and Brown (2000) have indicated in their research, effective leaders have a positive power/ethics ratio.

The element of power will be the basis for this investigation in order to see if in a broad sense whether a particular power usage style within a leadership model corresponds in a broad sense to the ethical failures in the organizations researched. It seems reasonable that the earliest modern leadership models would provide the simplest, and for our purposes, the best evaluative framework. With trait theory models discredited, the earliest model still employed and which clearly focuses on power is the Style approach to leadership modeling.

7. Procedure

7.1. Overview

This research utilized published literature on leaders, organizations, and scandals to provide the raw data for the leadership assessments. Organizations and literature sources were chosen based on their fulfilling our definition of ethics, availability of in-depth knowledge to perform leadership assessment, and the perceived applicability to today's organizations due to the current nature of the issues discussed.

Due in part to the lack of a single unifying theory of leadership or ethics, public literature often relies on opinion. Utilizing publicly available literature for evaluation is recognized as a possible weak point, since results may be skewed not only by the biases of the investigator, but the information sources available to the investigator. Additionally, the pool of organizations where sufficient public information is available may skew results. For example, there may be more in depth analysis and information available on an organization like Enron that failed spectacularly versus relatively stable companies such as Proctor & Gamble. Also, there may be more information available for popular leaders such as Bill Gates, Steve Jobs, and Michael Eisner than for low-key leaders.

7.2. Leadership Procedure

Once specific situations, organizations, leaders, and literature have been chosen based on the above criteria, the organization leadership will be evaluated. As noted in the leadership evaluation section, the simplest frameworks belong to the style approach family of leadership models and will be utilized for this research. This family of models ranges from the simple continuums such as Tannenbaum and Schmidt's (1973) Continuum of Leadership behavior and McGregor's 'Theory X' or 'Theory Y' model that contrasted directive versus participative leadership; to two-dimensional representations
including the popular Blake and Mouton model that utilize an axis that contrasting “concern for task” versus “concern for people.” (Bass, 1990)

Given the continued popularity of Blake and Mouton’s Managerial Grid and the numerous derivatives that it has spawned, it is more likely that the average leader will have at least a passing familiarity with it. This will have the advantage that the average user of this research will be able to, with little introduction, be able to understand the application and linkage of leadership and ethics used as the basis of the research and thereby be able to focus upon the results. Thus we will use this model for our discussion.

Since no direct access to the individuals evaluated is possible, the evaluation is based to some extent on opinion when utilizing the assessment tool. Further, the public literature relies, of course, on opinions of authors when evaluating both leadership and ethics. In evaluating the leadership style of the chosen leaders, two similar assessments will be utilized as a check for consistency and to minimize variances in opinion regarding the assessment tool. The first assessment tool attempts to determine which of three leadership styles, Authoritarian (Autocratic), Participative (Democratic), or Delegative (Free Reign) is normally utilized by a leader. (Clark, 2002) The second assessment tool attempts to place the leader within the four quadrants, Authoritarian, Impoverished, Team Leader, and Country Club, of Black and Mouton’s Managerial Grid (Clark, 2002).

7.3. Ethical Procedure

It is apparent that the majority of humans are drawn to failures; one merely has to pass by an accident on the highway to watch everyone slow down and see what happened. Maybe it gives us an out for our own failings, as if we could not possibly be as bad as those unfortunate people. Perhaps, it is merely an innate desire to learn and avoid the same problems. Whatever the case, news organizations discovered this attraction long ago. The evening news, whether from the radio, television, or newspaper is a litany of disasters, failures, and misfortunes, interspersed by the occasional positive human-interest story hidden in small spaces in the middle of the delivery. The reporting on business leadership seems to be no different. The One Minute Manager (Blanchard, Johnson, 1982) and In Search of Excellence (Peters, Waterman, 1982), both of which focus on positive examples of leadership, are notable exceptions, for the vast majority of business literature look at failures. At one end of the spectrum reporting seeks to draw out examples of what not to do in explaining what should be done, such as Maxwell’s (1998), Covey’s (1989), and Blank’s (1995) laws-of-leadership style books. At the other end of the spectrum are most of the popular press books and are in depth discussions of failures highlighting every possible problem and ascribing blame to those involved.

Maxwell (1998), in his book The 21 Irrefutable Laws of Leadership, sums up the link between leadership and ethics in his laws #2, #6, and #7, leadership is influence, leadership is respect, and trust is the foundation of leadership. He indicates that people naturally follow those that are stronger than them, and this is the basis of influence. That
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strength is built from trust that exemplifies competence, connection, and above all else good character. Maxwell goes so far as to say “...if you break trust, you forfeit your ability to lead.” (1998) Anthony Harrigan, president of the U.S. Business and Industrial council stated, "The role of character always has been the key factor in the rise and fall of nations. In short, character is the only effective bulwark against internal and external forces that lead to a country's disintegration or collapse." (Harrigan as cited in Maxwell, 1998)

If we take this apparent support for our definition of ethics, Ethical behavior is a systemic organizational process to build and maintain the cycle of trust – and combine it with the apparent fascination we and by extension the reporting process has on disasters our negative definition of ethics seems appropriate. Unethical behavior is a systemic process of taking advantage of the cycle of trust or some element in the cycle. This approach to defining ethics fits well if one wishes to utilize the popular press as an information source. Because of the nature of the reporting, most popular press books automatically fit our definition of an ethical failure. The selection criteria and books selected follow.

8. Book Selection

The books were selected on two major criteria. First was to choose scandals that are relatively current and whose effects are still felt, and who had far reaching effect on the business in general and within the industry. This precluded such scandals as the recent firing of Boeing’s CEO, which while current, had little far-reaching effect. It also precluded pyramid type scheme scandals as the original stamp scandal developed by Ponzi after which pyramid schemes are now commonly known. While being far-reaching and prevalent even today, the development of this scandal is not recent. The second criterion utilized in selecting books was based on the accessibility to information by the authors. The organizations and individuals selected for this research were: Black at Hollinger International; Skilling and Lay at Enron; Walsh, Felderhof, and de Guzman at Bre-X; Keeting at American Continental Corporation (Lincoln Savings and Loan); Waksal at ImClone; and Ebbers at WorldCom. The books selected and a short description follows.

To investigate Conrad Black, the book Wrong Way: The Fall of Conrad Black (McNish, 2004) was chosen. Two reporters Jacquie McNish and Sinclair Stewart wrote this book, in which they develop a basic biography of Black and provide an in-depth survey of Blacks tenure at Hollinger. A key aspect of the book is that individuals involved with both Hollinger and the subsequent investigation have been interviewed and provide an insider's view of the scandal and Black. The book has gone on to win the National Business Book award in Canada.

For the Enron scandal, the book The Smartest Guys in the Room (McLean, Elkind, 2004), by Bethany McLean and Peter Elkind, was chosen. McLean has a long history covering Enron. Her 2001 Fortune magazine article was one of the first publications to question the high valuation Wall Street and investors were placing on the organization (McLean, 2001). Further, McLean and Fortune magazine colleague Elkind
had direct access to members of Enron and were able to present an inside view of Enron operations. This book focuses primarily on the dysfunctional corporate environment that was developed at Enron, and how this led to the institutionalization of greed and deceit that lead to Enron’s collapse.

*Bre-X: the Inside Story the Stock Swindle that Shocked the World*, (Francis, 1997) by Diane Francis, presents a broad story whose purpose is to identify all the major players, as well as uncover their potential motivation in perpetuating the deception. Despite the challenges of a worldwide scope, and the involvement of governments and individuals proficient at hiding information, Francis and her research team do a credible job of gathering and presenting the information that is known. Given the death of key individuals at the core of the Bre-X scandal, Francis does well to gather information from sources close to the scandal and the organization.

To investigate the savings and loan scandal, and specifically the Lincoln Savings and Loan organization, the book *Trust Me: Charles Keating and the Missing Millions* (Binstein, Bowden, 1993), by Binstein and Bowden was chosen. During the research for this book, Binstein and Bowden had direct access to Keeting, his colleagues, and the prosecutor in the legal case against Keeting. The book presents a picture of the business landscape of the financial and banking sector as well as the political landscape the led to the de-regulation that became the springboard for the Savings and Loans scandals.

Alex Prud'homme was a freelance reporter that interviewed Waksal in ImClone’s early period and developed a continued friendship. In *The Cell Game: Sam Waksal's Fast Money and False Promises—and the Fate of ImClone’s Cancer Drug*, (Prud'homme, 2004) Prud'homme draws on the direct contact he had with Waksal before and during the scandal, in addition to contacts with those most closely associated with Waksal. Unlike other organizations researched here, the financial aspect of the scandal is relatively small, including Waksal’s attempt to dump stock, which is ironic considering those individuals who held on to ImClone’s shares have made a generous return. It is not necessarily the financial aspect that makes this scandal, and therefore it is not surprising that a significant portion of the book is devoted to the human aspect of those individuals the drug development was to aid. The book argues that it is these people that have been hurt most by the scandal and it highlights Waksal’s indifference to anything except that which made him quick money.

Lynne Jeter has been reporting on WorldCom since the early 1980’s as the primary reporter for the Mississippi Business Journal. In *Disconnected: Deceit and Betrayal at WorldCom*, (Jeter, 2003) she is able to draw not only on a long history of WorldCom reporting, but also enjoy a close association with the organization as Mississippi is home to WorldCom’s Headquarters. In the book a biography of Ebbers is presented, from which is drawn the realization that Ebbers was consistently developing and fostering an idealized image of himself, and that this drive to present the right image is what drove and sustained the WorldCom deception.
9. Insights

In investigating the organizations, their leadership, and associated ethics in light of the definition of ethics and leadership accepted for this research, it became apparent that there were key characteristics that were identified with leadership that had ethical lapses. These revolved around ego, information management, and ambition.

9.1. Ego

When we are rolled into an emergency room we do not want to be confronted by a doctor with doubts. The importance of the situation demands the need for a confident, decisive, and timely decision effectively implemented and followed through. The same goes for an organization. They need leaders to be confident and decisive, as well as employees and investors that see them as capable and trustworthy. This is not to say that doctors and leaders will never make mistakes, and leaders need to be aware of this possibility, however self-doubt must be at a minimum. Within their areas of expertise and knowledge leaders need to bring decisiveness in a timely manner, and the associated ability to follow through in the face of obstacles, to instill confidence and garner respect.

While ego in leadership is important, perhaps vital, to the success of an organization there are three manifestations that work to the detriment of an organization. The first manifestation is not necessarily an undesired ego, but rather is mismatched with the organization. In this case the ego of the leader is so forceful as compared with those led, that while the leadership is aware that they can make mistakes, no one is able to or does articulate this. The result of this situation is equivalent to the second type of undesirable ego, an ego that is delusional. In this situation the leader says and believes that they cannot be wrong and any and every challenge directed at the leaders ability and decisions is rebuffed; the leader is essentially a tyrant. In the final undesirable ego, leadership recognizes immediate failure but consistently believes in long-term success. They are so confident of success they are unwilling or unable to re-evaluate a situation or adapt based on the immediate failures. In effect they are essentially gamblers believing the next big score is right around the corner.

In all these cases the organization is in peril because the ability to evaluate and adapt to changing situations is reduced potentially down to a single individual, their biases, their knowledge, and their desires.

What checks and balances should an organization put in place to control the ego of the leader? There are three key elements that should be in place: a chain of command, a subordinate out, and independent audits.

The chain of command should start with the board of directors. They should be educated regarding their responsibility regarding the organization and CEO. In collaboration with the independent auditor, audited reports should be used to check the leaderships stated actions against the real results.
There needs to be a subordinate out. This entails a method within the chain of command for subordinates or peers to appropriately question actions without fear of reprisal. This is not just protection for whistle-blowers, though that is included, but is designed to provide a mechanism by which the chain of command can be made aware of potentially undesirable egotistical behavior, and by which subordinates and peers can inform leadership of concerns.

Independent audits are perhaps the most widely used control, and most relied upon. The role of independent audits with regards to ego is to ensure that proper controls are in place and being followed. It also ensures that reports are reliable, verifiable, and accurately represent the organizations positions. This is an important unbiased source of information against which leadership can be evaluated, as noted when discussing the chain of command.

How can a leader get around these controls? It is apparent from the scandals presented that despite at least some of these controls being in place ethical lapses still occurred.

The primary means by which these controls are circumvented, is board apathy. In the scandals investigated here, many boards like Hollinger’s were made up of highly respected individuals that gave credibility to the organization. But, these boards generally had minimal or no direct input or control of the organization, instead they merely acted as figureheads. This situation allowed leadership to control the board based on what information they were given, just as Conrad Black’s indicated when he stated that he would decide what to tell the board and when.

Another common method by which the researched leaders bypassed ego controls was by forcefulness. Through their strong personalities these leaders often instilled a level of fear amongst peers and subordinates such that they did not question the leaders actions and decisions. Continuous contact with such personalities often impelled individuals beyond mere fear of questioning to actively avoiding issues surrounding the leader thereby further facilitating their egotistical actions.

9.2. Hiding Information

All organizations and individuals hide information. This hiding of information gives an edge over those who do not have access to or knowledge of the hidden information. For example, drug companies do not advertise or share information regarding research, lest competitors beat them to either the market or patent office. Companies utilize a wide range of financial reports in their daily decision making that are not available to investors, who must rely on the carefully crafted public filings and investment prospectuses. Individuals in the finance office do not generally discuss or publish wholesale employee salary information. Internal security departments in stores do not identify all the measures in place to prevent theft, as this would be an invitation to both employees and customers wishing to circumvent the system. The mobility of both expertise and knowledge in today’s environment has meant that organizations have to ensure that key information does not walk off or get e-mailed outside the organization. A
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key method of controlling this is restricting who has access to the information. Governments, some of the longest standing organizations, have a long history in hiding information with their intelligence and counter-intelligence organizations. No matter what the business, or the individuals involved, the hiding of information is a valid and necessary aspect in a competitive environment. While hiding information is an important aspect of business there does need to be some management of the process.

An extreme example might be an undercover police operation. In this case, the organization goes to extremes developing and maintaining a background for an undercover officer. Before and during the operation, information is compartmentalized and controlled so individuals only know what is necessary for completion of their tasks. The target of the operation is hopefully unaware of key information, other jurisdictions and organizations maybe unaware of information, and in some cases, even fellow officers may be unaware of key information. The goal of this compartmentalizing and controlling of information is to protect the organization, specifically the individuals involved, and to have the organization succeed.

In addition to providing a concrete example of the extents that hiding of information can take and highlighting the important role it plays, it can also highlight a key aspect of hiding information; specifically control and responsibility. In the case of the undercover operation there is an overarching control of the process. Whether it be a case officer, a commissioner, or a chief, there is an individual who knows all the information and is responsible for determining and controlling the compartmentalization process. This again is for the protection of the organization and its individuals, and to ensure organization success. Those individuals with access to all the information are able to make the determination as to when success has been achieved and send in the troops. They are able to ensure that no laws, rules or regulations are broken ensuring the greatest chance of long-term success, or with an oversight of all the information are best able to determine when events dictate that things need to be pulled back.

The hiding of information is a powerful tool and can be wielded to the detriment of the organization. Two common misuses of information hiding repeatedly manifested themselves when researching the scandals. One misuse was as a method of gaining and maintaining power. The individual installs himself or herself as an information repository, forcing others to come to them because they were the only one who knew the answer. This prevented other interested parties in fully evaluating situations or developing an understanding of the current position of the organization.

The other common misuse was as a means of deception. In these situations, key individuals hid information, such that there was limited or no knowledge that certain situations even existed, or hid information, such that the true nature of a situation was misrepresented. In these cases, by controlling and limiting the individuals that knew what was happening, they were able to personally capitalize on situations.

What checks and balances should be in place to ensure that the hiding of information is not abused? In reviewing these scandals it became apparent that the
problems occurred when knowledge and information were hidden from everyone. To help prevent this situation there must be at least two independent parties with the knowledge. For example, organizations hide information from investors in their public financials as compared to their internal financials. However, external auditors, the board, and leadership have access to both sets and any information hiding tactics leadership might undertake should have the approval of the board, and at least tacit approval of the independent auditors via the audited financials.

Another key method of helping to prevent undesired information hiding is to foster a corporate culture, that if not outright supports questioning and learning, at least allows for it to occur. In such an environment, an individual wishing to misuse “information hiding” immediately stands out as their aims would run counter to the rest of the organization as learning, questioning, and information sharing would be detrimental to their plans.

While organizations generally provide employees with a job description during the hiring process, it was surprising that the organizations involved in these scandals had not developed a Human Resources system that linked rewards to performance based on quantitative measures of a job’s requirements; especially for leadership. Further, this system needs to be evaluated on a regular basis to ensure that the linkages to rewards are truly delivering the type of behavior desired. In doing so the organization can have a better knowledge of what the individual is doing, how they are doing it, and if it is meeting the organizational goals. If an organization is merely rewarding growth or profit, they are tacitly ignoring the means used. The individuals involved in these scandals were able to successfully misuse the hiding of information because the organization was focused only on the growth and profit information they were given.

Two key methods were used repeatedly in circumventing the controls to prevent the misuse of information hiding by the individuals involved in the scandals investigated. First, they exploited the organization, board, and investor focus on growth and profits. These key interest groups were so focused on positive results that it appears they came to expect them. Those involved in the scandal exploited this by providing enough information and misinformation to support those expectations. In such an environment, it appears never to have occurred to the key interest groups to evaluate the reality or accuracy of the information they were being provided with until it was too late.

The second method repeatedly utilized was to tightly compartmentalize the information sometimes down to a single individual who knew everything, or more often, amongst a core group of trusted compatriots. By controlling information and information access to this core group, they were able to direct organization strategy without oversight as to long-term viability, make decision without oversight as to the relative benefit to the organization, and engage the organization in illegal activities without reproach.
9.3. Drive for Success

Every organization wants individuals who strive for success; or more precisely individuals who help the organization strive for success. It is here that a fine balance between individual and organization success must be achieved. Individuals want to succeed in a personal sense, achieving personal recognition for their work, monetary and other rewards for their work, and increasing knowledge and responsibility to maintain and grow their personal worth. The organization has these same desires, including brand and quality recognition for their products and services, monetary and other rewards for products and services rendered, and increasing recognition and growth within the industry and customer bases. Organizations and individuals generally are able to develop a mutual understanding whereby individuals achieve success in the form of recognition, remuneration, and advancement, and in return the organization utilizes the individuals skills to achieve its own success. In these cases, individuals in pursuit of their personal success also provide success and resources to the organization. However, in the scandals researched here, this balance was not achieved and the personal success of key individuals resulted in a drain on organization resources.

Problems occur when an individual’s personal and professional ambition becomes unbalanced or when an individual’s ambition and the organization’s become misaligned. Three problems with ambition seem to appear with some regularity. The first problematic area is when ambition does not match the organizational needs. In these cases the organization is used as a stepping-stone to the ultimate ambitious desire. For example, a new leader of a successful niche retailer looking at successful competitors may have the ambition to develop the same technological infrastructure that has been a hallmark of Wal-Mart’s success. However, the resources necessary to implement such a strategy may be well beyond the organization, or in an effort to develop necessary economies of scale, it may lose its niche market. Possibly, further diversion of resources to such an implementation may jeopardize the core competencies that made the organization successful; such as personalized service, unique and one of a kind products, or cooperative agreements with suppliers. In such cases the ambition of the individual either to compete with Wal-Mart or merely copycat their technological innovations does not match with the organizations success ambitions. In this case, success for the individual resulting from the personal ambition is at the expense of the organization.

Another way in which ambition does not match organizational needs is when personal ambition does not relate to the organization. An individual wishing to be a successful surgeon would not take a position at a machine shop and work towards converting the machine shop to a medical facility. While this is an obviously contrived example, there are organizations that have been taken down this path. Some organizations successfully integrate very diverse products and services, such as GE, while others have been less successful, such as with the merger of AOL and Time/Warner, or others like RCA, whose diversification and redirection have been self-destructive (Chandler, 2003). In these cases, the vision and ambition of the leadership
does not match with the organizational needs and core competencies, potentially resulting in resources that are drained to the point that endangers survival.

The final problem that arises from ambitions is when individual’s personal and professional ambitions become unbalanced. It is in these cases that the organization becomes the vehicle to realizing ones personal ambition; money and resources are drained from the organization to help realize personal goals. Whether organization resources are used to support lavish lifestyles for leadership or for the personal advancement of leadership, this mismatch between personal ambition and the organization can represent a significant drain on organizational resources.

In order to avoid these problematic areas with ambition there are key checks and balances that need to be in place, not only for employees, but leadership as well. A primary tool that all organizations can utilize is the employment contract. This contract needs to carefully define and link individual success with organizational success. However, this contract must not simply define results, but also address the means by which success is achieved. This necessarily means that the agreement needs to be a living document that is evaluated and updated regularly.

Ambition requires that an individual or situation stand out from those around by being highly differentiated from competitors, peers, and industry norms. If a person or situation is continuously conspicuous, stands out despite the odds, or regularly performs well beyond expectations and never falters or performs well below expectations, further attention is warranted. When dealing with ambitious leaders it is important to monitor their conspicuous success or lack of success both within and without the organization. This monitoring protects the organization in two ways, first it allows the organization to provide recognition of success when appropriate an important aspect of retaining ambitious individuals, and second it allows the organization the opportunity to detect a misalignment in ambition earlier and take appropriate action.

The most common way controls were circumvented in the scandals investigated did not involve circumvention, rather there was a decided lack of controls in place to govern and control executive leadership, even in those organizations which had extensive control systems in place for their employees. The simplest and most common method used was to circumvent controls through the misrepresentation of information, such that it appeared the organization was succeeding, or that the individual was adding value to the organization. Any organization looking to avoid scandals would do well to ensure that controls apply across the entire organization including leadership.

In investigating the scandals, the leaders involved as presented by the authors, showed a surprising similarity in their actions and it was this that became the basis for these key insights. To highlight this connection a discussion of the scandals and their leaders in relationship to these key insights and the definitions of leadership and ethics will be presented.
10. Insights into Scandals

10.1. Ego

Possibly the most telling aspect of these leaders revolved around ego, and the fact that these leaders had egos that could not accept failure, or more specifically they could not accept personal failure. McNish and Stewart in their book *Wrong Way: The Fall of Conrad Black* (2004) repeatedly referred to Black’s outbursts, his arrogance, and his berating and bullying of friends, colleagues, board members, customers, and investors whenever his decisions were questioned or when he was questioned about how the organization was being operated. Black’s ego was so strong that it becomes apparent that his dismissal of shareholders as unimportant and idiots was merely a symptom of his belief in his own superiority, and a belief that he was entitled to all he had and more. It is never clear whether Black knew that he might be wrong, or if he was delusional and believed that he could never be wrong. In either case, his forceful personality made it such that nobody would question him for fear of losing his or her job. There is no question that his ego would not allow him to recognize personal failure, as evidenced by the numerous lawsuits and complaints he has filed against detractors and accusers.

This same overpowering ego is so pervasive that it becomes difficult sometimes to differentiate between the leaders presented in these books. For example the book *Trust Me: Charles Keating and the Missing Millions* (Binstein, Bowden, 1993) paints a scenario when describing Keating, that could be interchanged with Conrad Black. Keating terrorized staff and berated regulators who challenged his actions. Even when the Lincoln Savings & Loan collapsed, his ego could not accept that he had failed. Rather he claimed that the real cause was not his actions but rather the result of federal regulators who where petty and controlling because they did not wish him to succeed.

Jeter in the book *Disconnected: Deceit and Betrayal at WorldCom* (2003), again paints a picture of a CEO who believed that the organization was his own personal kingdom that he could rule with impunity. As with the leaders mentioned so far Ebbers is described as tyrannical and terrorizing. In fact, the author starts with a story describing how one of Ebbers’ best friends, an executive, agonizes over his decision to sell some company stock, and the bizarre process by which he is fired for doing so. Again, as with the other leaders, Ebbers is unable to accept personal failure. As the book points out, he consistently denies any wrongdoing, instead proclaiming that his primary concern has always been for shareholders and a return on their investment.

Prud’homme, in the book *The Cell Game: Sam Waksal’s Fast Money and False Promises—and the Fate of ImClone’s Cancer Drug*, (2004) does not paint Waksal as overtly tyrannical, but rather more like a salesman who prefers to con individuals into action rather than forcing them. However, Waksal does not want to hear or see problematic information or details. And the staff, while not necessarily terrorized, are not strong enough to present the need for more control and action. And, just as with the other leaders, Waksal is not willing to accept personal failure preferring to blame results on other individuals and agencies. Based on Prud’homme’s book it appears that
Waksal ego was so strong that he was delusional and incapable of believing that he could fail. It may be that his skill at lying to promote and keep his organization operational became so refined that he began believing the lies himself.

Enron has become synonymous with failure and poor leadership, however McLean and Elkind in their book *The Smartest Guys in the Room* (2004) paints a picture of a leadership team that was exceedingly arrogant, who came to believe that rules and regulations did not apply to them. The leaders surrounded themselves with individuals that agreed and supported them and intimidated those in the organization who might question them. Not surprisingly, given our look at the other leaders here, and despite the massive amount of attention and forensic accounting directed to Enron, the leaders have steadfastly denied any wrong-doing; believing instead that they, in fact, are the real victims. Given, that by using any method available, be it bribery, intimidation, or outright lying, Enron leadership was able to ensnare investment bankers, accounting firms, traders, and general investors, McLean and Elkind make it clear that Enron’s leadership felt they were entitled to what they were doing. Mclean and Elkind felt that the leadership were so delusional about their own success, that no matter what the organization, if these individuals had come together, the same scenario would have played out as their ego’s fed off each other.

Arguably the odd man out amongst these leaders, though not because of any lack of ego, was David Walsh, founder of Bre-X. In the book, *Bre-X: the Inside Story the Stock Swindle that Shocked the World*, Francis (1997) portrays Walsh as tenacious and sometimes unbending, but does not paint him as being tyrannical or overly arrogant. In fact, he actively tried to foster just the opposite view of himself, much in the same vein as Ebbers did at WorldCom. However, he did have an ego and always felt that success was eminent. Francis alludes to the fact that throughout the Bre-X rise and fall there is still speculation as to whether Walsh knew of the salting scandal that was the underpinning of the stock scandal. In reality, Walsh’s ego and belief in success was so great, or delusional, that even after subsequent investigations proved that there was no gold at the Busang site, he constantly defended his actions maintaining that there were significant gold deposits there. It was not only Walsh, but also other members of Bre-X management whose egos seem larger than life. Felderhoff too, in spite of the overwhelming evidence, has vowed to clear his name.

10.2. *Hiding Information*

While it is interesting to note the egos and the need to be recognized as successful regardless of apparent reality, of equal interest is the extent to which these leaders and leadership teams went to hide information; in most cases both to consolidate power and to deceive interested parties. From the straightforward deceptions of simplistic accounting, irregularities at WorldCom or salting of core samples and Internet hype at Bre-X, to the highly complex deceptions engineered at Hollinger and Enron, all were merely attempts to protect the leadership position and to generate and maintain investment.
The primary method by which Black attempted to hide and deceive was via a complex pyramid of holding companies in combination with a series of hidden or overpriced transactions and management fees, which allowed the organization to siphon off enormous amounts of resources from the primary Hollinger organization to privately held organizations. He controlled what information was presented and available to the board, and board meetings were perfunctory, less than an hour, rubberstamping sessions. Investors who dared to question Black regarding specific issues where immediately shut down and diverted with counter-attacks by Black or completely ignored, but regardless of the method their questions were not answered.

Bowden in his book notes that Keating relied on misinformation and deception in building his American Continental Corporation. By hiding information, presenting misleading data, and enlisting the help of some U.S. Senators, he attempted to get exempted from many regulations. When this failed, he began attempting other methods of circumvention. Ultimately, one of two successful methods was relied upon. First, was the selling of essentially worthless bonds in the parent corporation to investors who believed there was significant backing in real estate behind the bonds. The other method involved deceiving investors into placing money with American Continental, which was not regulated or protected, when they believed that the money was with Lincoln Savings & Loan, which was regulated and protected by FDIC. These activities resulted in the loss of millions, mostly for deceived elderly investors.

Bernie Ebbers deception occurred with his self-portrayal as a good old boy who was working hard to make money for the company and investors. Jeter points out that the reality was far removed. WorldCom was engaged in a multitude of deceptive practices all designed to increase profits and maintain growth. Practices included double bookings, generating uncollectible accounts receivables, improper use of goodwill and delaying payments to vendors. Outright deception involved hiding bad debt, backdating of contracts to boost period profits, and the outright understatement of costs. Even when it came to their auditors, Arthur Anderson, they failed to provide information; and the auditors became accomplices as they furthered this practice of hiding information as they approved the financials, despite having questions and knowing that information was absent. Ebers created an entire environment where hiding the truth from investors and ensuring that the “gap” between the true worth and real profits, and of those actually reported, would remain undiscovered.

Waksal, as presented by Prud’homme, was a man determined to take shortcuts. In fact, the biotech industry and Erbitux were specifically chosen because he believed it to be the quickest way to success. Whatever the shortcut, he was willing to take it. Those who knew Waksal described him as a pathological liar, who believed he could talk his way out of anything. Prud’homme points out that Waksal had problems with the truth even in his graduate student days. He forged signatures for loan applications and avoided taxes by having items delivered out of state. Even leading up to his arrest and trial he lied to the government, had his family lie to the government, and had employees shred documents, all in attempt to hide his activities. However, unlike the other companies here, where the deception ultimately revolved around financial aspects, with
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Waksal it revolved around research and clinical trials. Prud'homme indicates that the submission to the FDA for approval was not merely flawed, but had been manipulated not only to silence critics and investors, but also in the hopes of getting quick approval from the FDA. Two key areas of research that did not match what ImClone reported were the death rate in the clinical trials, and the success or response rate of patients. It was these deceptions that ultimately led to the rejection by the FDA and the resulting insider trading scandal.

Of all the scandals researched here, Enron utilized the broadest range of deception and hiding information techniques. In a vein similar to Hollinger, they utilized a complex scheme of shell companies to perform trades in an effort to generate revenue and to siphon off resources for those in the leadership. Like WorldCom, they actively falsified accounting reports to mislead the board, analysts, and investors. What may be unique in the Enron situation is the extent to which a corporate culture was created to support, sustain, and justify the fraudulent activities of the organization; and the ease with which they pulled in supporters to this culture of deception, including their accountants at Arthur Anderson, their bankers at Citibank and Chase, their brokers at Merrill Lynch, and the analysts who extolled Enron’s virtues while their short-sellers made fortunes on their shorted positions. It seemed that as long as the money was flowing, everyone was willing to hide information, perpetuate the deception, and ultimately move from merely bending the law to their own advantage to outright breaking the law. What is most interesting about the Enron scandal is that much of the financial reporting they did, while not accurate and eventually causing Enron’s downfall, was in fact legal in regards to the letter of the law. Lay, Skilling and the rest of Enron management were like skilled magicians. Magicians do not break the laws of physics but they create that illusion that they do! Enron’s true financial position, income, and growth were not only not stellar, they were those of a company on the brink of disaster. Yet like the master magicians they were, Enron’s leadership presented an organization of apparently unlimited growth and returns that drove markets and investors right to the point of disaster.

Francis, in describing the Bre-X scandal and its leadership, discusses the obvious hiding of information and deception surrounding the falsification of estimated gold reserves and enriching of core samples to support the claims. But notes one other significant factor in Bre-X’s ability to continue its climb: Internet promotion. In this case, Walsh’s brother entered into a concerted effort on the web to promote Bre-X stock and its CEO, and according to Francis, often had significant effect on Bre-X’s stock price. In Bre-X’s case, the information hiding and deception were simplistic; relating directly to promoting company stock and the gold find. It was the investment environment and apparent greed of investors that resulted in a frenzy where no one bothered to check or question the constantly increasing gold reserve estimates.

10.3. Drive for Success

Why would the leaders of these and other organizations undertake such extensive deceptions? What was the goal? What aspect of the organization, or its
employees, does information hiding endeavor to assist? The answer to these questions is arguably the underlying cause of a majority of business scandals, and is the subject of the remaining key aspects uncovered in this research – success.

Hollinger was merely a vehicle for Black’s personal success. The success of Hollinger as an organization was not important, in-so-far as it allowed him both the lifestyle, political objectives, and connections he personally desired. His penchant for the “good” life can be seen in the standard array of excesses, including those of his wife and select supporters; from the private jets and Bentleys, to the collection of mansions and excessive parties, to his tenacious drive towards a Lordship in England. He utilized his papers, such as the National Post, as his entry into high-society. He fed his personal ambitions by cultivating “celebrity” acquaintances such as a former U.N. Secretary General, a former British prime minister, and a former U.S. secretary of states amongst others. All these people helped promote his far-right political ideals. With his salary, bonuses, and the enormous amount of cash flowing from Hollinger to his private holdings Black still had Hollinger, rather than himself, purchase Roosevelt documents to write a Roosevelt biography to feed his own desires to be recognized as a writer. These are just a few examples that McNish and Stewart highlight in their book to demonstrate the out of control lavish lifestyle Black used Hollinger to fund.

Keating’s siphoning off a million dollars just weeks before the collapse of Lincoln Savings & Loan because he knew of its imminent demise, highlights the disregard in which he held the organization. Lincoln Savings & Loan became the personal ATM for the Keating family. He utilized millions of dollars to buy influence for himself, his family, and his organizations with U.S. Senators. He gave more than a million dollars from the organization to Mother Theresa to improve his personal image as a benefactor. This is not to say that Keating did not aspire to the same lavish lifestyle of the other leaders researched here. He too had his personal private jet, traveled the world buying expensive items for his offices and homes, spent thousands of dollars on dinners, and accumulated numerous properties and perks for himself and family.

Despite the down home simple persona Ebbers tried to project, the drive for personal success was no less strong than with any of the other leaders discussed in these scandals. More than any other leadership team, with the possible exception of the Enron leadership, personal excess was institutionalized. Arrangements with investment bankers exchanged personal gains on stocks for WorldCom business. Ebbers himself was estimated to have amassed a personal net worth in excess of one billion dollars before the scandal broke. In line with other leaders discussed, Ebbers, knowing that WorldCom was near collapse dumped tens of millions of dollars in stock in an effort at ensuring his own wealth, a clear indication of his priorities with regards to his own success versus the success of the organization. His personal lifestyle also points to this fact with estimated hundreds of millions of dollars in personal assets including numerous homes, a yacht, even a golf course, all funded by hundreds of millions in personal loans and transfers from WorldCom.
Waksal was always looking for a quick route to success. It appears that everything he did was an attempt to gain recognition and success and achieve a lifestyle of the rich and famous. Unlike the other leaders in this group, whose personal ambitions drained so many resources from their respective organizations they were doomed to collapse, it was Waksal’s inattention to ImClone, because of his superstar lifestyle which included buying art, associating with the rich and famous like Mick Jagger and the now infamous Martha Stewart, going to sports events, traveling and staying at five-star hotels, and frequenting New York social circles, that fueled the disaster. While he did utilize company funds for many of these activities, the board of directors tried to control his spending, forcing him into utilizing credit, so at the time of his arrest he owed significant sums to various banks, art galleries, and other service providers, as well as the IRS. Waksal was so busy striving for success and impressing people that Erbitux was merely the means to this end. He never cared about either the organization or the cancer patients he ultimately hurt.

For Enron’s leadership the organization was the ultimate bank and insurance company rolled into one. They entered into highly risky personal investment opportunities that, if they panned out, the proceeds would be pocketed; and if not, it was not a problem, as Enron or one of the shell companies would absorb the loss. The institution was the perfect insurance policy with no premiums. Probably the most telling statistic for how Enron’s management viewed their own success versus that of the company is in the salaries paid to the top managers during the year leading up to Enron’s collapse: an amount that was greater than Enron’s income overstatements, which were significant, for the previous four years. As with other organizations in this research, Enron leadership had all the perks provided: multiple company jets, adventure vacations all over the world, fast cars, boats, and real estate in all the best locations. Their glee at creating and sustaining the California power outage as it was boosting energy costs, shows the level of arrogance and self-absorption that these leaders had come to. They did not care about anything or anyone except their own continued success.

Bre-X is almost an anomaly compared with the other organizations in this scandalous group. While the key members did engage in political maneuvering, take world hopping vacations, purchase homes and cars, and revel in the spotlight as they received accolades, it was on a small scale compared with the other leaders featured. It appears that the greed and success demands were almost greater with those not directly associated with Bre-X but who were on the periphery, such as greedy investors and the ruling Soeharto family.

10.4. Leadership

When reviewing these organizations, and the individuals who led them, it is not easy to look beyond the excesses, the betrayal, and ultimate failure to see their leadership ability. However, it is important to do so, for in looking at our definition of leadership, the use of power to get others to do what you want, these leaders might be considered super leaders. Black, for a considerable period of time, was able to lead all his organizations on a single-minded quest to provide for his lavish lifestyle, provide a
method and forum to meet “celebrities”, and garner him a title and seat in the House of Lords. Skilling, Lay, and the entire Enron leadership team were able to not only mislead investors, but also Wall Street. And that does not include such amazing leadership displays typified by their successful control of the energy situation in the southwest which resulted in convincing officials to initiate rolling blackouts in California. Walsh, like the leadership at Enron, convinced an entire financial community to buy into the promise of his organization so completely that despite continuously rising estimates and prices, no one bothered to take the simple step of inquiring into the validity of the claims. Ebbers not only was able to maintain investor support, as with Enron and Bre-X, he was also able to convince competitors to join them, sometimes by force, acquiring organizations at a ferocious rate, even those considerably larger, by leveraging the organizational worth that he had generated via investors belief. Keating not only accomplished all these same initiatives, such as investor support and belief along with an appetite for acquisitions, he also courted and received help from government officials, and was able to influence changes in the law. Waksal like the others was able to convince investors, including a large pharmaceutical company, to continue investment in a product that had no known future value, and for which he provided little, if any, feedback during development and testing. In the end, these individuals had an amazing ability to getting diverse groups of people to believe in them and to follow them even in the face of seemingly impossible odds and data. From the elderly retirees who lost their life savings to Keeting, to the millions who lost their retirement benefits through Enron, and to the thousands of patients denied a life-extending drug, it would seem that these individuals, however despicable their methods, had a leadership aptitude few could match.

10.5. Ethics

Looking at our ethics definition, where ethical behavior is a systemic organizational process to build and maintain the cycle of trust, and unethical behavior is a systemic process of taking advantage of the cycle of trust or some element in the cycle, it is clear that all the leaders and organizations reviewed here were unethical since a significant portion of each of these organization’s success relied on breaking the cycle of trust. Without exception all these organizations broke the cycle of trust with investors by either not providing key information that would have altered their investments, or providing false information to secure and maintain their investment. More importantly, as this is an investigation into leadership and ethics, each of the leaders of these organizations was personally involved in the engineering or implementation of such a break. While all these leaders were involved in the breaking of numerous cycles of trust there are those that were key in their conduct. Both Black and Keating funneled resources out of the organizations to which investors believed they had gone. Black to his own privately held organizations and Keating to his own unregulated organizations, in both cases sidestepping fiduciary responsibility and breaking trust with investors. Skilling, Lay, and Ebbers utilized financial reporting to generate completely false pictures of their respective organizations health, with each falsely portraying their organization as not only healthy, but growing, and providing ever greater returns, when in reality both were barely surviving. Waksal and Walsh, while not directly providing false financial information, were providing false product
information to investors to ensure their continued investment and to garner new investors.

In all these cases it was the inherent leadership ability of these amazing leaders that allowed them to build veritable empires built specifically on exploiting trust. The magnitude of the financial scandals at each of these organizations and the surprising periods of time they were able to maintain them makes it clear that leadership could not have perpetrated them single-handedly. It is a testament to their leadership ability that they were able to get employees to buy into corporate cultures that supported trust breaking, that they got outsiders to support the trust breaking from analysts, to auditors, to government officials, and that they got key interested parties to agree to the trust breaking including suppliers, customers, and investors. The most important element that these cases highlight however, is the link between leadership and ethics, and how a leaders ethics can have a profound effect on an organization.

11. Conclusion

In evaluating the relationship between leadership and ethics considering the key insights discovered surrounding ego, information hiding, and drive for success an evaluation of leadership style was undertaken with a concentration on power usage. Two separate leadership style tests were used. The first test developed by Clark based on Blake and Mouton’s Managerial Grid (Clark, 2002) found this group of leaders to be highly task and goal oriented with little people orientation outside their close circle of confidents, thus ranking them as strongly authoritarian. Utilizing a Leadership Styles assessment found all the leaders to have high Authoritarian scores and low participative scores matching the results of the Managerial Grid assessment (Clark, 2002).

This research had a plethora of current literature on organizations from which to gather data for evaluating the leadership style assessments. While only a small subset of the literature was used, a cursory glance at the list of scandals during the last ten years appears to highlight a potential link between authoritarian leadership and ethics lapses or scandals.

While no conclusive link between authoritarian leadership and ethical failure can be definitely asserted, given the necessary fraud that accompanied these failures of leadership, it is not surprising that the leadership was highly authoritarian. The leaders needed to exert an enormous amount of control in order to maintain secrecy both for their actions, and to maintain the level of perceived trust to carry out their actions. In addition, their highly authoritarian style quite often allowed them to intimidate not only subordinates within the organization, but also partners, investors, and even the boards that were supposedly in charge of the publicly held organizations.

Conrad Black’s furious rampage against Hollinger International’s vice-president in charge of investor relations highlights this mentality when he reportedly says, “This is my company, I will decide what the board knows and when they know it.” (McNish, Stewart, 2004) Lay and Skilling, like Black, consolidated their power, utilizing it to hide and extend their unethical behavior, to deceive investors and to reap personal rewards.
The scandal associated with Bre-X mirrored what occurred at Enron, with Felderhof’s and de Guzman’s outright lies being enabled by Walsh’s combination of primary authoritarian and secondary delegative leadership style. While Keeting, of the American Continental Corporation (Lincoln Savings and Loan), used his personal forcefulness to shut down colleagues, allowing him to circumvent the S&L’s financial safeguards. Finally, Waksal’s drive for success and money, that arguably forced researchers to cut corners when testing Erbitux, led to an FDA refusal that resulted in insider trading charges for Waksal, a two year wait for cancer patients, and perhaps most devastating of all, according to Prud’homme, a lost of trust in the biotech industry (Prud’homme, 2004).

A quick look beyond those organizations investigated reveals numerous cases where an apparently authoritarian leadership style was associated with ethical lapses. William Flanagan in his book, Dirty Rotten CEO’s: How Business Leaders are Fleeing America (2003), highlights the breakdown in ethics at some of the largest corporations, such as Tyco, WorldCom, and AOL/Time-Warner. Flanagan is convinced that many CEO’s are using their unchecked power to mislead their own organizations, accountants, and investors, all the while amassing their own personal wealth. Byron in his book Martha, Inc. (2002) highlights the ruthlessness with which Martha Stewart wielded her absolute power at Omnimedia, and with those around her. The resulting Martha Stewart insider trading case is somewhat unique, in that it not only indicates her control (SEC documents indicate she got her broker Bacanovic to attempt a cover up for her (U.S. SEC, 2003),) but it also highlights the fact that ethics cannot be legislated by governments or regulatory agencies. According to case documents, despite engaging in insider trading, six-months later Stewart becomes a board member of the SEC, the very organization responsible for regulating these activities (U.S. District Court Southern District of NY, 2003). While these examples continue to highlight the use of authoritarian power by top executives, it can happen at any level within an organization. John Rusnak, an employee described by Susan Keating head of AllFirst bank as an employee in good standing, utilized what power he had to cover up almost $700 million in losses over five years by hiding information and working the system in such a manner that back-office staff complained about his authoritarian manner. When confronted, his terse response was "I'm the guy who makes the money around here." (Leith, 2002) The 233 year-old Barings Bank was brought down by Nick Leeson who used his power to so effectively control access to his actions that, despite warnings from Singapore’s International Monetary Exchange to the bank specifically about Leeson’s dealings, the bank still extended him an additional $1 billion to continue his trading.

These compelling examples, and the research, point to a correlation between ethics and an authoritarian leadership style, or more specifically a link between unethical behavior and an authoritarian leadership style. Does this mean that authoritarian leader led organizations are likely to be guilty of unethical behavior? Not necessarily, because while unethical behavior is a general indicator of authoritarian leadership, authoritarian leadership is not predictive of unethical behavior. One cannot say that leadership style alone is a cause of ethical or unethical behavior. This is not to say that authoritarian leadership cannot be the starting point in determining the potential
for unethical behavior. Authoritarian leadership will need to be evaluated in the relationship to the key findings of ego, information hiding, and success.

Jim Collins in his book *Good to Great* (2001) presents the antithesis of the leaders in the scandal group. Unlike the leaders of our scandal ridden organizations, these leaders transformed organizations into entities that have outperformed the market and competitors over an extended period of time. Some of these leaders could be characterized as being authoritarian, but did not experience the scandals and ethical lapses that occurred amongst our group of leaders. Where is the difference then? The key aspects of ego, information hiding, and success may provide some insight. Whereas the leaders in the scandalous group were highly egotistical, regularly engaged in deception, and utilized their organizations for personal success, the leaders in the Good to Great companies “…channel their ego needs away from themselves and into the larger goal of building a great company…”, they also went about “…creating a culture wherein people had a tremendous opportunity to be heard and, ultimately, for the truth to be heard…”, and they had “…ambition first and foremost for the company and concern for its success rather than for one’s own riches and personal renown…”. (Collins, 2001)

This stark contrast between the leadership of highly successful organizations and organizations brought down by scandal is highly suggestive, especially given the polarization of the leadership with each group standing at the extremes when it comes to ego, information sharing, and success. Empirically it seems clear that leadership is key in preventing scandalous behavior in an organization. However, while this research has shown a high correlation between unethical behavior and authoritarian style leadership, it has not shown predictability between leadership style and ethics.

What can boards or organizations learn from this investigation? While it is clear that one cannot say that an authoritarian style of leadership will lead to unethical behavior, based on this empirical evidence and supporting research, unethical behavior requires, or at least is substantially more likely to arise, within an environment of authoritarian leadership. It should also be remembered, based on our definition of ethics, that ethics is a process. Scandals like Enron, Hollinger, and Bre-X did not happen over night. McLean and Elkind, in their exposé *The Smartest Guys in the Room*, clearly identify this phenomenon – “The Enron scandal grew out of a steady accumulation of habits and values and actions that began years before and finally spiraled out of control.” (McLean, Elkind, 2004) They also point out that it was not merely Enron at fault as the environment of the day also attributed to the problem – “…a new ethos was gradually taking hold in corporate America, according to which anything that wasn’t blatantly illegal was therefore okay – no matter how deceptive the practice might be.” (McLean, Elkind, 2004)

Regardless of the style of leadership, but particularly if the leader is authoritarian, organizations and their key interest groups would do well to ensure that safeguards are in place and are being followed, especially in the key area of finances which seem to be the hallmark of ethical lapses. It has generally been the uncovering of financial
irregularities by reporters and investors, who, by pressing for missing or faulty information surrounding reporting and safeguards, have exposed the scandals and failures at these organizations. It is then that the regulatory and prosecutorial agencies have taken appropriate action to uncover much of the information surrounding the failures that we know today.

In an effort to legislate ethics and to move from an investigative to preventive approach, governments are pushing on with new regulatory elements and implementing legislation, such as the Sarbanes-Oxley Act, demanding that executives shoulder ever increasing responsibility for their organizations procedures and reporting processes (United States, 2002). However, this reliance on regulation to build trust is inherently flawed as it transfers the cycle of trust away from the organization, and places it with the regulatory body. One merely has to look at the numerous rules changes that the SEC has invoked over its history, or the numerous reporting restatements issued after Enron’s failure, to understand that as Lord Moulton said, ethics cannot be legislated.

As a starting point to ensure ethical behavior, today’s organizations can follow all the legislative requirements but must still implement safeguards to ensure that processes and procedures are being followed. Implementation of a comprehensive set of checks and balances similar to the three branches of the U.S. government may significantly enhance an organizations ability to maintain ethical behavior as well as detect unethical behavior. Boards must not relinquish their responsibility as overseers of an organization. Senior administration must not relinquish their responsibility to create an environment supportive of ethical behavior. Finally, auditors must not relinquish their responsibility as an independent system of evaluation. Each of these groups is required to play a role as a check and balance in the maintenance of the ethical behavior of an organization.

All these elements are a necessary and effective means of building an “ethical” organization. But, perhaps the best deterrent an organization can implement to stave off unethical behavior by its employees is a systemic organizational process to build and maintain the cycle of trust. Core to this process is providing clear accurate information, through efficient, effective, and transparent communication. No organization is perfect. There will always be ethical stumbles within an organization, even with the best intentions of the employees and leadership. However, given that today’s organizations have moved past simple quality checks onto full fledged quality control processes, it is obvious that the organizations that can begin to actively manage the ethics within their organizational structure will begin to reap the rewards of and increased trust and support by their customers and employees. It is this reward of support that will be an integral part of the long-term success of the organization, without which it is doubtful that survival is possible.
12. References


