

# The Ethics of a Leader and its Impact on the Moral Development of the Organization

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# Objectives of the Presentation

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- Provide historical examples of leadership ethical failures
- Identify leadership ethical virtues from the literature
- Identify the foundation of western ethics
- Describe leader moral development
  - With a focus on Kohlberg's 6 Stage Moral Development Model
  - Discuss leadership theories associated with Kohlberg's model
    - Transactional Leadership
    - Transformational and Servant Leadership
- Describe ethical challenges for a leader and follower
- Provide insight into the power and influence of a leader
- Provide example frameworks (including Kidder's 9 Stage Model) for making ethical leadership decisions
- Use a case study example to demonstrate Kidder's framework

# Examples of Leadership Ethic Failures

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- Space Shuttle Challenger Disaster, January 28, 1985
- Enron Collapse

# Challenger Disaster Case

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- Background
  - The space shuttle uses two solid rocket boosters (SRB) (reuse of a reliable Titan rocket design). The SRBs were manufactured by Morton Thiokol of Utah. The SRBs were manufactured in 7-segments with “O”-rings as joints between segments. “O”-rings are meant to prevent hot gasses from escaping during launch. The booster design was only tested down to 40 °F. Analysis of recovered SRBs in 1985 showed degradation failure of the “O”-rings at 53 °F.
  - The space shuttle program was advertised as a low cost vehicle for launching satellites. This was not being realized with cost overruns and frequent launch delays. NASA wanted to demonstrate the ability to launch multiple shuttle launches in a year (1986) to improve the perception of the shuttle program.

# The Actors and Motives

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- NASA - The organization hired the brightest of engineers, scientists, and staff. The organizational culture stressed safety and had significant quality processes and procedures in place. The culture was success-oriented. The projects were very complex and sophisticated.
  - The NASA management was under pressure to launch from an economic, political, and public perception standpoint
    - The shuttle program was cost overrun and a delay in launch would add to the cost
    - A delay in launch would delay subsequent shuttle launches
    - The shuttle launch would place the shuttle in orbit during the president's state of the union address. The president was stressing educational reform and the Teacher-in-Space astronaut, Christa McAuliffe, was on the shuttle
  - Past damage that had been reported to the "O"-rings did not result in catastrophic failure. Thiokol could not definitely provide proof that the "O"-rings would fail, even at the lower than designed for temperatures that were expected during launch

## The Actors and Motives (continued)

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- Morton Thiokol Engineers
  - Were aware of the “O”-ring problem at low temperatures. They did not have time to put together a convincing case for launch delay
  - They were very vocal about delaying the launch and refused to approve the Recommend-To-Launch form. They were over-ruled by Thiokol management
- Morton Thiokol Management
  - Insisting on delaying the launch until weather improved threatened to impact the relationship of Thiokol with NASA management, possibly affecting future business
  - The Thiokol engineers could only provide circumstantial evidence for possible “O”-ring failure in cold temperature. There was no conclusive proof.

# The Disaster

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- The night before the launch
  - The launch temperature was expected to be 29 °F. A previous flight in 1985 showed partial “O”-ring failure at 53 °F. The spec testing of the “O”-ring was only conducted down to 40 °F.
  - NASA management requested launch recommendations from Thiokol
    - Thiokol engineers expressed concern for the possibility of “O”-ring failure at this untested temperature. NASA managers disagreed and indicated that the evidence was inconclusive. Thiokol engineers refused to approve the Recommend-To-Launch.
    - NASA confronted the Thiokol executive in private and pressured the executive: “Take off your engineering hat and put on your management hat”. The Thiokol executive relented and approved the Launch Approval.
- The day of the launch
  - The temperature of the “O”-ring was 28 °F.
  - The launch proceeded
  - The disaster occurred January 28, 1986, 59 seconds into the flight

# The Challenger Accident - Lessons Learned

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- The results of the Challenger Commission investigating the accident noted the following conclusions:
  - Not one single error had occurred.
  - No one, including the managers, intentionally committed any wrongdoing
  - NASA noticed the damage to the “O”-rings over time, but continued to convince themselves that the damage and consequential risk was acceptable.
- The success-oriented culture applied pressures to push forward, gradually allowing minor violations of standards to become the standard. This resulted in an incremental descent into poor judgment . Nothing looked wrong until it was all over.



# Enron Collapse Case

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- Background
  - Enron’s business interests included selling electricity, natural gas and other energy products, and services that included network bandwidth, risk management, and financial. The company experienced exceptional growth in the 1990s. The company hired the best of business school graduates. The culture was success-oriented with successful individuals being rewarded and non-performers shunned. The focus was on immediate short-term financial goals, rather than on long-term value.
- Descent into poor judgment and greed
  - As the business grew and experienced success, competition between individuals increased, with greed becoming a part of the company culture. Individuals wanted to “make it big” so there was high motivation to earn more. Mistrust between individuals and competing organizations increased, resulting in secret business agreements to become commonplace
  - This opened the door for the hiding of business losses in fictitious offshore ventures and the inflation of profits on the books.

# The Collapse

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- The proliferation of the fictitious offshore ventures to hide losses to make the company look more profitable, created a downward spiral that required the executive management to increase deceptive accounting practices, to continue appearing to be profitable while losing money.
  - Fall of 2001 - CEO Kenneth Lay sold millions of shares of personal stock while assuring employees and shareholders that the company was an excellent investment opportunity. The company executive management continued to tout the success of the company, even attacking Wall Street analysts who questioned the company's financial behavior and performance
  - August, 2001 – Enron stock reached its highest level, \$90 per share. Enron executives promised shareholders that the stock would reach \$120 per share. Sherron Watkins, an Enron executive, brings concerns as to improper accounting activity and the offshore ventures to Kenneth Lay's attention. Watkins was ignored. Watkins eventually went public with accusations of Enron financial fraud. Enron stock rapidly drops, reaching \$15 per share by October. The company finally declares bankruptcy.

# What Happened – Ethics Gone Wrong

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- The ethical lapses are almost too many to count
  - Greed – The success-oriented attitude and the “win by any means” culture shifted the focus on making money. Individuals lapsed into poor judgment, forgoing all sense of fairness and concern for others, especially shareholders
  - Deception and fraud – The hiding of losses in fictitious offshore ventures, and the boosting of profits through shedding losses violated all accounting practices
  - Complacency, lack of moral courage – The stock was rapidly rising, making shareholders rich. There was little incentive for the board of directors and Arthur Anderson to question the Enron executives. Executives who knew, with the exception of Watkins, remained silent
  - Lack of accountability and conflict of interests – The individual organizations maintained their own books without internal accountability. The company auditor, Arthur Anderson, conducted other business services with Enron that would be in jeopardy if Anderson Accounting looked too closely at the books and revealed problems
  - The Enron culture was encouraged and promoted from the top down.

# Leadership Theory Progression

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- Early 20<sup>th</sup> century leadership theories
  - Leader focused – Trait, Skills, and Style theories
  - Leader's role was seen as authoritarian with direct control over followership
    - Leading through inducement and coercion
- Leadership theories progressed to incorporate followership –
  - Leader-Member Exchange, Situational, and Contingency theories
  - Leader adapted behavior to consider the situation and follower behavior
- Late 20<sup>th</sup> century leadership theories
  - Shift to collaborative leader-follower relationship – Transformational, Servant Leadership Theories
  - Multi-directional, non-coercive, persuasive influence where leader and follower intend real change for the improvement of the organization (Rost, 1995)
  - Leader is role model focused on moral development of the organization (Graham, 1995)
  - Leader's power and influence is based on the perception of the followership
    - How followers view the leader's ethical and moral character (Hollander, 1995)

# Virtues

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- Definitions of moral virtue
  - Aristotle's (350 BC) Ethics
    - An element of a person's character that tempers emotions
    - Results as a consequence of following the right habits
      - Courage – holding a position despite fear
      - Temperance – soundness of mind, discretion
      - Liberality/generosity
      - Magnificence - being of great soul
      - Honesty
      - Justice and fairness
      - Practical judgment
      - Being a good friend
  - Plato's Republic (360 BC)
    - Wisdom
    - Courage
    - Temperance
    - Justice

# Leader Virtues, Values, and Dispositions

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- Literature reveals a wide range of virtues, values, and dispositions that are expected in our leaders

## Johnson (2007)

- Discernment
- Discretion
- Integrity
- Strength
- Courage
- Self-restraint

## Solomon (1997)

- Trustworthiness
- Loyalty
- Warmth
- Benevolence
- Civility
- Persistence

## Klann (2007)

- Courage
- Caring
- Optimism
- Self-control
- Communication

## Goodenough & Woodruff (2001)

- Humaneness
- Fair-mindedness
- Courage
- Reverence

## Lord and Brown (2001)

- Consistency – in order to reduce incongruence

## Verhezen (2008)

- Integrity

## Meara, Schmidt, & Day (1996)

- Being motivated to do good
- Possessing vision and discernment
- Understanding emotion
- Self-awareness
- Understanding the community's expectation

Solomon (as cited by Johnson, 2007)

Meara, Schmidt, & Day (as cited by Talley, 1997)

## Integrity as the Key Leader Virtue

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- Integrity is vital to being able to live by principles (Hawks, Benzley, & Terry, 2004)
- A leader of integrity reflects on and discerns what is right and wrong (Verhezen, 2008)
- Allows the leader to do the right thing despite public opinion and to be steadfast in situations of challenge (Verhezen, 2008)

# Western Ethics

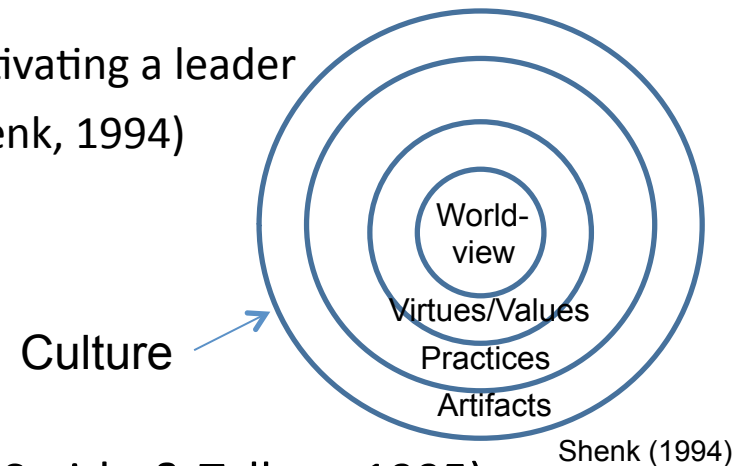
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- Western ethics – based on early Greek philosophers, Plato, Socrates, Aristotle
  - Focuses on moral processes with an emphasis on (Bass & Steidlmeier, 1999):
    - Individuals
    - Organizations
    - Society
  - Addresses contrasts in moral intent (Egoism versus altruism) and moral consequences (benefits to self versus others)
  - Major themes of Western ethics
    - Liberty – freedom to think and act
    - Utility – greatest good for the greatest number
    - Distributed justice – fairness with which rewards and resources are distributed to the members of a group
  - Three factors form the foundation of leadership ethics (Bass & Steidlmeier, 1999)
    - Moral character of the leader
    - Legitimacy of the leader's vision
    - Morality of the choices that the leader and follower's choose



# Leader Moral Development

- The wide opinion of leader virtues is not as important to the nature of leadership as is the ability of the leader to develop a moral and ethical foundation
  - Social and cultural context is a factor in motivating a leader
  - Worldview lies at the center of culture (Shenk, 1994)



- Moral development theories (Lichtenstein, Smith, & Tolbert 1995)
  - Individuals develop morally through stages
    - Continuing refinement of worldview
    - Progression of increasingly sophisticated ethical judgment-making capabilities
  - Constructive Development Theory, Kegan, 1982
  - 9 Stages of Ego Development, Loevinger, 1978
  - 6 Stage Model of Moral Development, Kohlberg, 1969

# Kohlberg's Model of Moral Development

## Level 1. Pre-Conventional

- |         |   |
|---------|---|
| Stage 1 | Obedience to rules set by an external authority through rewards and threat of punishment – Extrinsic oriented |
| Stage 2 | Performance through explicit exchange agreements. Self-interest focused - "What's in it for me"               |

## Level 2. Conventional

- |         |  |
|---------|--|
| Stage 3 | Move towards conformity and fulfilling expected social roles, in order to fit in - Interpersonal relationship oriented |
| Stage 4 | Fulfilling social duties resulting from membership in an organization or group - Authority and social order oriented   |

## Level 3. Post-Conventional

- |         |   |
|---------|---|
| Stage 5 | Utilitarian, social contract focused, taking all shareholders' interest into consideration – Consensus oriented |
| Stage 6 | Universal ethics principles focused – Laws are valid only if they are grounded in justice and fairness          |

# Kohlberg's Model – Pre-Conventional Level

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- Pre-Conventional Level
  - Morality is founded in terms of unquestioned authority (Graham, 1995)
    - Authority figure states what is right or wrong
      - Right-oriented actions result in acceptance
      - Wrong-oriented actions result in punishment
    - Morality is judged by direct consequences
    - Ego-centric focused – concern with self-interest
      - Focused on rudimentary moral behaviors
        - » Avoid punishment
        - » Seek rewards

## Kohlberg's Model – Conventional Level

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- Conventional Level
  - Move away from self-interests towards social system of rules and responsibility (Graham, 1995)
  - Morality is founded on social duties
    - Individual identifies as a member of a social group
      - Cultural traditions and expectations
    - Morality of action is judged through comparison with societal views and norms
- Both the Pre-Conventional and Conventional Levels rely on external authority to judge the morality of actions

# Kohlberg's Model – Post-Conventional Level

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- Post-Conventional Level
  - Move away from external definition of morality to independently established principled beliefs that are used to guide moral decision making (Graham, 1995)
    - Respect for the interests of the larger group
    - Individual has a well developed moral reasoning ability to distinguish between right and wrong
  - Morality is not judged by the absolute application of rules
    - Rules are changeable to ensure justice and fairness
    - Adopting a universal set of moral principles such as equal rights (Hawks, Benzley, & Terry, 2004)
  - Moral action is taken in the pursuit of liberty, utility and distributed justice (Burns, 1978)

# Kohlberg's Model Mapping to Leadership Styles

Leadership Style	Stage of Moral Development	Moral Grounding
Level 1. Pre-Conventional		
Coercive leadership	Stage 1. Obedience to external authority	Authoritative direction
Transactional leadership	Stage 2. Compliance with exchange agreements	Enforceable agreements
Level 2. Conventional		
Leader-Member Exchange	Stage 3. Interpersonal role obligations	Personal relationship
	Stage 4. Social responsibilities to group	Cultural expectations
Level 3. Post-Conventional		
Transformational and Servant leadership	Stage 5. Utilitarian	Benefits to all stakeholders
	Stage 6. Universal principles	Principles of justice

# Leadership Style at Pre-Conventional Level

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- Transactional leaders (Bass & Steidmeier, 1999)
  - Motivate followers through:
    - Positive actions such as promises and rewards
    - Negative actions such as punishment
  - Leader identifies a transaction or exchange
    - Sets the conditions for rewards and the threat of punishment for non-compliance
- Both the leader and follower are behaving in a moral and ethical manner, but at a low level of moral development
  - Operating at a worldview level of self-interest

## Leadership Style at Post-Conventional Level

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- Transformational leaders operate at the highest level of ethical and moral development (Bass & Steidmeier, 1999)
  - Idealized influence
    - Encourages the follower to adopt high standards and provides the vision to achieve these standards
  - Inspirational motivation
    - Provides meaning and challenges to followers to work to shared goals
  - Intellectual stimulation
    - Encourages the follower to be creative and to question assumptions
  - Individualized consideration
    - Mentoring and guiding the follower and providing growth opportunities
- The transformational leader attempts to elevate the follower to the post-conventional level
  - Provides a relationship that encourages mutual stimulation
  - Tends to convert followers into transformational leaders



## Leadership Style at Post-Conventional Level (continued)

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- The ethical and moral themes associated with transformational leadership and the post-conventional level are mirrored by Greenleaf's Servant Leadership model
  - Themes include being a steward and teacher, mentoring, listening, placing others first (social interests), motivating and inspiring followers, creating vision, building trust, respect, integrity, commitment to goals, building community (Greenleaf, 2002)
  - Servant leadership ensures that other's needs are met first (Spears & Lawrence, 2004)
    - Major component of post-conventional morality

# Ethical Challenges for a Leader

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- Power
  - Arises from the tendency for power imbalance in the leader-follower relationship (Johnson, 2007)
    - Pre-conventional Level – Leader relies on authoritative use of power, specifically coercive, reward, and positional power
    - Creates a separation between leader and follower that can lead to a sense of privilege
      - This sense of privilege is diminished in servant leadership due to the emphasis on the leader serving as a servant, putting the follower first
  - Corrupting influences of power (Hollander, 1995)
    - Power becomes desired as an end in itself
    - Tempts the powerholder to use organizational resources for self-benefit
    - Devaluation of other's worth
- Orienting (Goodpaster, Maines, & Weimerskirch, 2004)
  - Focuses on the leader guiding followers towards shared visions and values
    - A transformational leader is motivated to finding visions and values that are mutually beneficial by both leader and follower (Burns, 1978)

## Ethical Challenges for a Leader (continued)

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- Institutionalizing (Goodpaster, et al., 2004)
  - Incorporating and sustaining ethical values into the organization can be achieved through Bandura's (1977) social learning theory
    - By becoming a positive role model in displaying attractive ethical values, the followership will seek to emulate the leader (Brown & Trevino, 2006)
- Sustaining ethical values (Goodpaster, et al., 2004)
  - Reinforcing ethical principles and values through constant communications, positive situations, and rewards
- Situations that have competing, ambiguous, and conflicting demands (Verhezen, 2008)
  - The leader needs to act with integrity and consistency
- Reducing moral stress (Verhezen, 2008)
  - The leader must avoid moral muteness (avoiding the situation) and take a stand through moral courage

## Ethical Challenges for a Leader (continued)

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- Foresight (Greenleaf, 2002)
  - Central ethic of leadership
  - Without foresight the leader can only react to circumstances
    - Opens the leader and organization to making choices that may lead to unethical situations in the future (Greenleaf, 2002)
  - The leader needs to expand awareness and perception to a level of vision (Spears & Lawrence, 2004)
    - Allows the leader to examine the organization's shared values allowing the leader to take generative action to maintain a sense of purpose
- Both transformational and servant leadership seek to ensure that the leader-follower relationship operates at the highest level of moral and ethical development

# Ethical Challenges for the Follower

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- Without followers, leadership is meaningless (Kelly as cited by Dixon, 2009)
- Leadership is not just focused on leaders, it needs to consider both leader and follower (Rost, 1995)
- Responsibilities for followers (Kelly, as cited by Dixon, 2009)
  - Self-management, commitment, competence, and courage
- Chaleff's (as cited by Dixon, 2009) five dimensions of follower courage:
  - Courage to assume responsibility
    - Followers need to take ownership in generating new ideas and initiating actions to improve the organization
  - Courage to serve
    - Followers need to have conviction in pursuing the common good
  - Courage to challenge
    - Followers need to support the leader in challenging the leader when appropriate
  - Courage to participate in transformation
    - Followers need to champion change
  - Courage to leave
    - Followers need to be able to separate from an unethical leader and organization

# Leader Influence on Ethical Climate

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- The leadership establishes the ethical climate of the organization
  - Determining right and wrong
  - Accountability, responsibility
  - Integrity, trust
- At the lower end of moral development (pre-conventional) the followers are motivated by rewards and punishment (coercion, reward, and positional power)
- At the higher end of moral development (post-conventional) followers are motivated by a sense of admiration for the leader and strive to emulate (referent power)
  - The followers must perceive the leader as altruistic, leading with justice, fairness, and equity (Engelbrecht, van Aswegen, & Theron, 2002)
  - The leader must act with integrity, an uncompromising adherence to moral and ethical values (Verhezen, 2008)

# Power and Influence in the Organization

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- Power is a fundamental component of leadership
  - Allows leaders to influence followers through applying the various forms of power available to them (Holford, 2003)
  - Power results from an asymmetry between the two parties, leader and follower (Simon, as cited by Bass, 1990)
    - Gives advantage to the party with more power
  - French and Raven (as cited by Johnson, 2007) identified five forms of power
    - Coercive, reward, legitimate (positional), expert, and referent
    - Basis of power in transactional leadership (pre-conventional) are coercive, reward, and legitimate
    - The type of power shifts at higher levels of moral development (post-conventional)
      - The transformational and servant leader rely on referent power
      - Power is shared between leader and follower
        - » Positive impact on the ethical climate of the organization
        - » Fostering follower personal growth, and acceptance of challenges

# The Ends of Leadership

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- Transformational and servant leadership is at the moral foundation of the post-conventional leader
  - The transforming leader
    - Seeks to satisfy the higher needs of the follower (Burns, 1978)
    - Attempts to form a relationship with the follower that provides stimulation and challenges the follower to become transforming leaders
    - Greenleaf (2002) notes that the goal of a servant leader is to elevate and grow the follower to be healthier, wiser, and freer, with the hope that the follower becomes a servant leader



# Example Frameworks for Making Ethical Leadership Decisions

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- Numerous guidelines are available for leaders to support ethical decision making
  - Successful ethical leadership requires consistent and competent behaviors in order to maintain organizational trust
  - Guidelines ensure that ethical considerations are factored into leadership decision making
- Example guidelines
  - Paine's Moral Compass
  - Kidder's 9-Step Checklist
  - Johnson's Five "I" Model

# Paine's 4-Part Moral Compass Framework

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Harvard ethics professor – Lynn Paine (as cited by Johnson, 2007)

- Question 1. Purpose – Will this action serve as a worthwhile purpose?
  - Serves to examine end results (Johnson, 2007)
    - What are we trying to accomplish? Short and long-term goals? Are these goals worthwhile?
    - Will the action lead to achieving the goal?
- Question 2. Principle – Is this action consistent with relevant principles?
  - Identifies ethical standards relevant to the moral dilemma (Johnson, 2007)
    - What standards are applicable? What are our responsibilities to these standards?
    - Does the proposed action conform to the standards?
- Question 3. People – Does this action represent the legitimate claims of the people likely to be affected?
  - Examines the likely outcome of the action (Johnson, 2007)
    - Who is likely to be affected, and in what manner? What are the parties rights?
    - Does action result in minimizing harm and maximizing benefit to the affected parties?
- Question 4. Power – Do I (we) have the power to take this action?
  - Do we have legitimate authority to exercise the decision?
  - Do we have the resources to implement the proposed action?

# Kidder's 9-Step Checklist for Ethical Conflict Resolution

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- Ethicist Rushworth Kidder (as cited by Johnson, 2007)
  - Checkpoint 1. Recognize that there is a moral issue
  - Checkpoint 2. Determine the actor
  - Checkpoint 3. Gather the relevant facts
  - Checkpoint 4. Test for right versus wrong issues
  - Checkpoint 5. Test for right versus right paradigms
  - Checkpoint 6. Apply resolution principles
  - Checkpoint 7. Look for a third way
  - Checkpoint 8. Make the decision
  - Checkpoint 9. Revisit and reflect on the decision

# Checkpoint 1: Recognize that there is a moral issue

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- Moral issues associated with dilemma
  - Evaluate whether the problem is associated with an ethical issue versus personal taste, etiquette, or custom
  - Examples of ethical issues that may be violated
    - Altruism – seek to benefit others (encourages empowering, mentoring)
    - Trust
    - Utilitarianism - Strive to achieve the greatest good for the greatest number of people
    - Kant’s Categorical Imperative – Decision makers should do what is morally right regardless of the results
      - Not violating, but furthering the moral rights of others
    - Rawl’s Principal of Distributed Justice - Fair Distribution: Wealth and resources should be distributed fairly based on equality, equity, and need
      - Consideration given to foster rights (freedom of speech, thought) and to ensure that benefits go to the least advantaged people
    - Schumann’s (2001) Moral Principle of Care – care for those you have a relationship with

## Checkpoint 2: Determine the actor

## Checkpoint 3: Gather the relevant facts

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- Checkpoint 2. Determine the actors associated with causing the moral dilemma
  - Actors can be on all sides of the ethical problem
  - Actors can be associated with a wide range of groups and communities surrounding the problem
    - Care should be exercised in identifying actors that come under the responsibility and authority of the leader facing the ethical problem
- Checkpoint 3. Gather the facts surrounding the ethical problem
  - History of the problem
  - Motives of the actors
  - Patterns of behavior
  - Consequences if the problem is not addressed
  - Implications of taking action – who is impacted
    - Possible responses from actors

## Checkpoint 4: Test for right-versus-wrong issues

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- Determine if problem or the leader's proposed solution involves wrongdoing
- Four part test for evaluating wrongdoing and proposed actions (Johnson, 2007)
  - Legal Test – If the problem involves lawbreaking, the problem is a legal issue and not an ethical issue. Resolution should arise from the impartial application of the law.
  - Stench – If the proposed action produces an intuition of unease, then the action involves right versus wrong issues
  - Front Page Test – Would the leader's proposed action stand up to public scrutiny.
  - Mom Test – Would the leader's proposed action be approved of by Mom or an important mentor
- Determine if the decision involves a temptation conflict
  - Even though the proposed action is wrong, the leader is tempted to choose it

## Checkpoint 5: Test for right-versus-right paradigms

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- Types of right versus right conflicts (Rhode, 2006)
  - Justice versus mercy - Fairness and equality conflict with extending mercy and forgiveness
  - Short-term versus long-term - Short term gains can come at the expense of long term benefits
  - Truth versus loyalty
  - Individual versus community – the interests of one individual are in conflict of a greater group

## Checkpoint 6: Apply resolution principles

### Checkpoint 7: Look for a third way

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- Checkpoint 6. Once the leader identifies a proposed action, the action should be considered with regards to the identified moral principles from Checkpoint 1
- Checkpoint 7. If there is no clear action that appears suitable with regards to moral principles, consider a compromise that attempts to benefit the greatest community



## Checkpoint 8: Make the decision

### Checkpoint 9: Revisit and reflect on the decision

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- Checkpoint 8 - This is the most difficult step
  - At some point the leader needs to take a stand and implement the proposed action
  - This requires moral courage on the part of the leader
    - Moral courage – the quality of character that enables a leader to face up to ethical challenges confidently, despite possible opposition and against popular opinion (Kidder, 2005)
- Checkpoint 9. Reflect on the decision
  - The case could be used as a lessons learned example for the organization

# Johnson's Five "I" Guideline

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- "Identify" the problem
  - Recognize the ethical problem
  - Identify goals for the decision
- "Investigate" the problem
  - Problem analysis
    - Determine stakeholders, develop criteria for evaluating solution
  - Data collection
    - Gather information surrounding the problem
- "Innovate" by generating a variety of solutions that will satisfy goals
- "Isolate" a solution
  - There may not be a perfect solution. Choose solution that meets ethical criteria
- "Implement" the solution
  - Develop an action plan

# Ethical Leadership Case Study Example

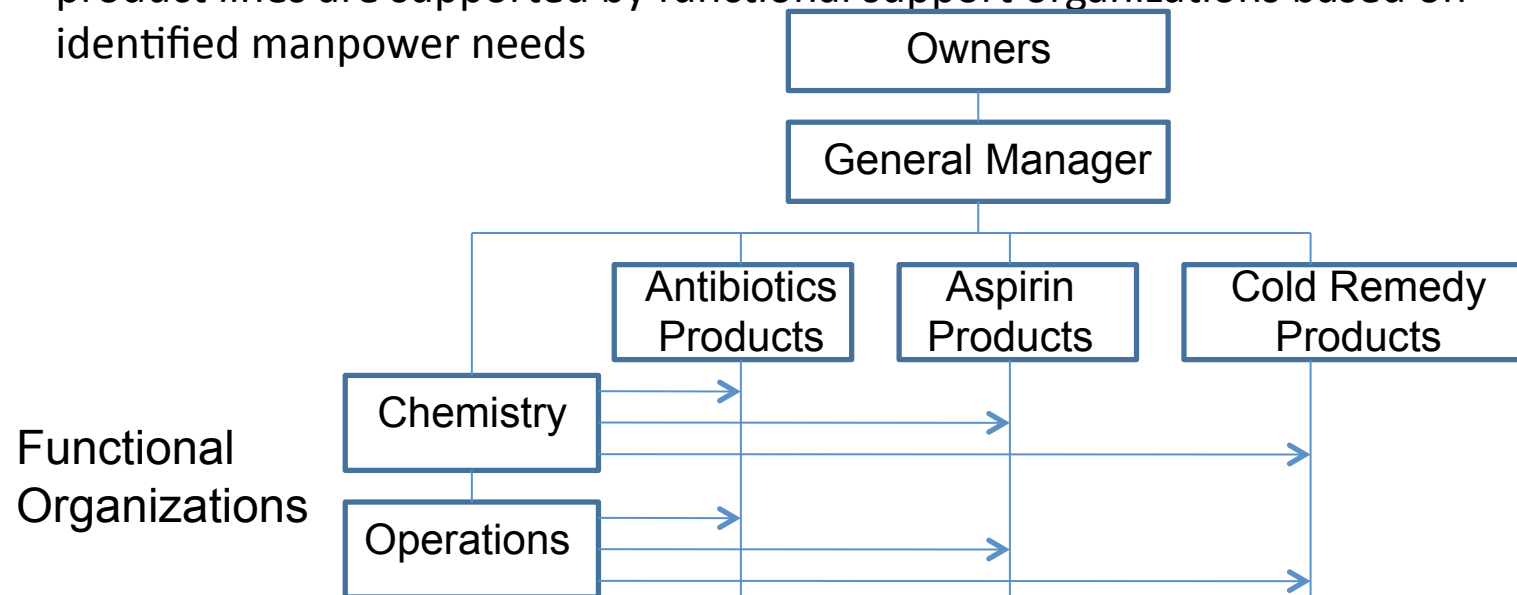
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## Ethical Leadership Case Study Example

This case study example is fictional and structured to demonstrate ethical dilemmas and decision making opportunities.

# Ethical Leadership Case Study

- John Smith is a manager of the chemistry department for Acme Pharmaceuticals. Acme Pharmaceuticals is a manufacturer of various pharmaceutical products for other pharmaceutical companies. The company is a matrix company where the product lines are supported by functional support organizations based on identified manpower needs



- The product line managers receive a bonus based on the profits of the product line during each quarter (organization compensation and reward system). Product line managers hold significant power and influence in the organization since they produce the profits for the organization. The functional organization managers get a bonus based on staying within budgets and not consuming company overhead.

## Case Study – The Ethical Dilemma Appears

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- Due to the economy, the company faces a downturn in projects (contracts end and others postponed or cancelled) in the cold remedy product line. The cold remedy product line manager wants to reduce losses and increase profits on remaining contracts. The cold remedy product line manager pushes to reduce staff by returning functional staff to their departments such as the chemistry department.
- The cold remedy product line manager insists that functional staff must be preserved for future anticipated work, but refuses to provide funding. Assures returned chemists that their jobs are safe and that the return to the functional organization is temporary
- The general manager prefers layoffs versus overhead spending (cuts into overall company profit). Could jeopardize general manager's bonus from the owners. General manager applies pressure to the chemistry department manager to cut staff.
- What are the ethical dilemmas? Who are the actors? What can the chemistry department manager do?
- Use Kidder's 9-Step Checklist for Ethical Conflict Resolution

This case study example is fictional and structured to demonstrate ethical dilemmas and decision making opportunities

# Kidder's 9-Step Checklist for Ethical Conflict Resolution

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# Checkpoint 1: Recognize that there is a moral issue

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- Moral issues associated with dilemma

# Checkpoint 1: Recognize that there is a moral issue

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- Moral issues associated with dilemma
  - Trust
    - Cold remedy product line manager assuring chemists that their jobs will be safe and that being returned to the functional organization is temporary
      - Cannot assume this in economic downturn
  - Product line manager placing personal interest before employees
    - Compensation/reward system encourages marginalizing employees
    - Violation of Shumann's (2001) Moral Principle of Care for special relationships
    - Violation of Moral Principle of Utilitarianism
    - Violation of Rawls' Principles of Distributed Justice (Rawls, 1971)



## Checkpoint 2: Determine the actor

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- Actors associated with causing the moral dilemma

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- Actors associated with causing the moral dilemma
  - Cold remedy product line manager
    - Klann (2007) notes that leaders should show attribute of caring
      - Chemists showed years of dedicated support to product lines
    - Product line manager showed little caring, consideration or altruism
    - Product Line manager receives bonuses for reducing costs
  - General manager of company
    - Showed little consideration for plight of newly returned chemists
    - Concerned with loss of bonus
- Actor associated with solving moral dilemma
  - Chemistry department manager – Leader of returned chemists
    - Assumes moral principle of caring for special relationships
    - Sees need to act from standpoint of utilitarianism and justice

## Checkpoint 3: Gather the relevant facts

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- Chemistry department manager interviewed product line managers
  - Universal attitude of product line managers are that the chemists “are not their responsibility”
    - Chemist’s funding was the “problem” of the chemistry department manager
  - Chemists critical to product future – chemists not to be layed-off
- Chemistry department manager interviewed his supervisor, the general manager of the company
  - General manager unsympathetic to chemists funding issues
    - Little regard for moral sense of caring for special relationships
      - Saw the chemists as burden on chemistry organization overhead accounts
    - Was more concerned with the displeasure of the owners for lost profits

## Checkpoint 4: Test for right-versus-wrong issues

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- Four part test for wrongdoing

## Checkpoint 4: Test for right-versus-wrong issues

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- Four part test for wrongdoing by product line manager
  - Legal Test – Returning chemists and removing their funding was not illegal from the law standpoint or company policy
  - Stench – Promising that jobs were safe and temporary was ethically questionable
  - Front Page Test – The newspapers are filled with stories of lay-offs, not very newsworthy
  - Mom Test – Pushing the chemists back to their department showed little care for years of loyal service – not something to be proud of

## Checkpoint 5: Test for right-versus-right paradigms

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- Product line manager's decision to return chemists was motivated by self-interest and the structure of the organization's compensation and reward system
- Short-term versus Long-term issues
  - Short-term cutting of funding achieves financial goals
- Chemistry department manager interest in preserving staff
  - Sense of care for chemists
  - Sense of fairness, equity, and justice
  - Long-term loss of expertise and legacy knowledge is expensive
    - Costly to hire new chemists
      - Long learning curve
      - Requires training to build up expertise
      - Difficult to recover legacy knowledge lost

## Checkpoint 6: Apply resolution principles

### Checkpoint 7: Look for a third way

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- Chemistry department manager's possible actions
  - Attempted to persuade product line manager of consequences of removing funding
    - Loss of chemists through layoffs
      - Loss of critical knowledge and expertise
      - Long and expensive recovery of skills in future
    - Loss of trust of product line organization staff
  - Proposed compromise of product line manager to restoring partial funding to chemists or spreading work across entire chemistry organization
    - Chemistry department manager could make a case to general manager for reduced profits
      - Risk own bonus – altruism
  - Layoff chemistry staff
  - Other possible solutions?

Checkpoint 8: Make the decision  
Checkpoint 9: Revisit and reflect on the decision

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- What would you do? Why?

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