Ethical Leadership[1]

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Kelly Smith is confused. As the purchasing manager for a medium-sized manufacturing company, she has just been given the task of choosing a vendor for a $100,000 contract for a production line component. The regular procedure is for the company to ask vendors for proposals and then choose the one that provides the required specifications at least cost. However, this time Kelly has been given, by her boss, the names of two vendors and asked to pick one. On further probing, Kelly finds out that of the two companies being considered, the spouse of a board member owns one and an influential local politician owns the other. Both companies have quoted seemingly competitive rates, but no other proposals have been solicited, so Kelly does not know whether another company would offer better rates. Although nothing has been said to her explicitly, she feels that these two companies have been short listed in order to serve the interests of some senior executives in her company. Choosing a vendor in this manner is a clear violation of the established guidelines. However, her boss has clearly instructed her to go ahead without requesting other proposals. On the one hand, if she ignores his instructions, she will likely be in trouble with senior management. On the other hand, if she does follow instructions, she will earn the goodwill of the parties involved, and there will probably be no immediate harm to her department or her company. However, it will set an undesirable and clearly unethical precedent.

1. *What would you do?*
2. *How would your view change if you were likely to lose your job if you violated the boss's direct order?*
3. *Would your opinion be different if the contract was for $100 million instead of $100,000?*

It is the position of this text that people cannot be successful leaders if they are not ethical. The last few years have witnessed scandalous behavior in the business community and virtually every other sector of society (religious, government, sports, military, and education). Although some are quick to pin the blame on a few "bad apples," there is generally more to the story than that (Treviño & Youngblood, 1990). "Bad apples" feel free to behave badly when the organization's ethical context does not clearly support doing the right thing. And, sometimes, bad contexts can create bad behavior in people who would not ordinarily engage in it. Note the behavior demonstrated in pictures of prisoner treatment at the Abu Ghraib prison in Iraq. Without a strong ethical context (standards, guidelines, training, etc.) and clear ethical leadership, a number of "normal" American soldiers engaged in horrific behaviors.

It is important to understand that most people, including adults, look to their peers and significant others (such as leaders) for guidance regarding ethically appropriate behavior. The substantial literature and research on cognitive moral development (Kohlberg, 1969) says clearly that most adults are not autonomous moral actors. They look to others for guidance. And, without guidance from leaders, most will follow what their peers do. How many of you have heard people ask their friends, "What would you do in this situation?"

So, leadership is essential to create a strong ethical context in organization, beginning with executive leaders who set the "tone at the top" (Clinard, 1983; Posner & Schmidt, 1992) and the organization's overall ethical culture. From there, messages about what is appropriate and inappropriate are reinforced by leaders at all other levels in the organization through their daily behavior and their implementation of organizational systems.

✦ EXECUTIVE LEADERS CREATE ETHICAL CULTURE

Although known discussions of the central components of leadership date back several thousand years (see Chapter 7), it has been only recently that modern academics have devoted significant attention to what constitutes ethical leadership and how leaders can shape the ethical elements of their organization (Treviño, Hartman & Brown, 2000; Treviño, Brown, & Hartman, 2003). Let's begin by considering executive leadership and how executives create ethical culture. Anthropologists define culture as "a body of learned beliefs, traditions, and guides for behavior shared among members of a society or a group" (Barrett, 1984). This idea of culture also has been used extensively to understand organizations, as well (Deal & Kennedy, 1982).

Ethical culture can be thought of as a subset of the broader organizational culture and includes a number of formal and informal systems that work together to support ethical conduct in the organization. Formal systems include the organization's selection system, formal rules and codes, authority structure, reward system, orientation and training programs, formal decision processes, and

so on. Informal systems include norms of daily behavior, heroes, rituals, myths and stories, and the language that is used by organization members.

Leadership is critical to an organization's culture because senior leaders create these systems and structures (Schein, 1985), and everyone looks to their behavior for guidance about how to behave with regard to ethics—and virtually everything else in the organization as well. Often, an organization's founder has a vision for how the organization should operate. He or she may personify the culture's values, providing a model for others to observe and follow and guiding decision making at all organizational levels. Most everyone is familiar with the demise of the auditing firm, Arthur Andersen, which had been one of the United States' premier accounting and consulting firms prior to the Enron scandal. The saddest part of the Andersen story may be that Arthur Andersen, the firm's founder, was a strong ethical leader. Andersen said, "My own mother told me, 'Think straight—talk straight. ...This challenge will never fail anyone in a time of trial and temptation.'" "Think straight, talk straight" was the mantra for decades at the company. Partners said with pride that integrity mattered more than fees. The story about Andersen's ethics became part of the firm's lore. At the age of twenty-eight, when he was just starting his business, Andersen confronted a railway executive who demanded that his books be approved. Andersen said, "There's not enough money in the city of Chicago to induce me to change that report." Andersen lost the business, but later the railway company filed for bankruptcy and Arthur Andersen became known as a firm one could trust. In the 1930s, Andersen talked about the special responsibility of accountants to the public and the importance of their independence of judgment and action. Andersen's management approach was a top down, "one-firm" concept. No matter where they were in the world, if they were in an Andersen facility, customers knew they would receive the same quality and type of work. Employees were trained in the "Andersen Way," and that way included strong ethics. Training at the St. Charles, Illinois, facility was sacred at Andersen. The professionals it created spoke the same language and shared the same values. They felt part of a very special group that called themselves *Androids*. Andersen died in 1947 but was followed by Leonard Spacek, a leader with similar convictions who ran the firm in the 1950s and 1960s. The company's strong ethical culture continued pretty much through the 1980s. People didn't expect to get rich—rather, they wanted "a good career at a place with a good name." And partners acted in the long-term best interest of the firm. When you talk with retired Andersen veterans, they'll tell you about those years and you can feel the pride they used to feel (Toffler, 2003).

Senior executives are particularly important because employees take their cues from the messages sent by those in formal leadership roles. But, most employees don't know the senior executives of their organization personally. They only know them from afar. Senior executives must develop a reputation for ethical leadership by being visible and in the forefront on ethics issues. Research suggests that such a reputation rests upon dual dimensions: a **moral person dimension** and a **moral manager dimension** (Treviño, Hartman, & Brown, 2000; Treviño, Brown, & Hartman, 2003).
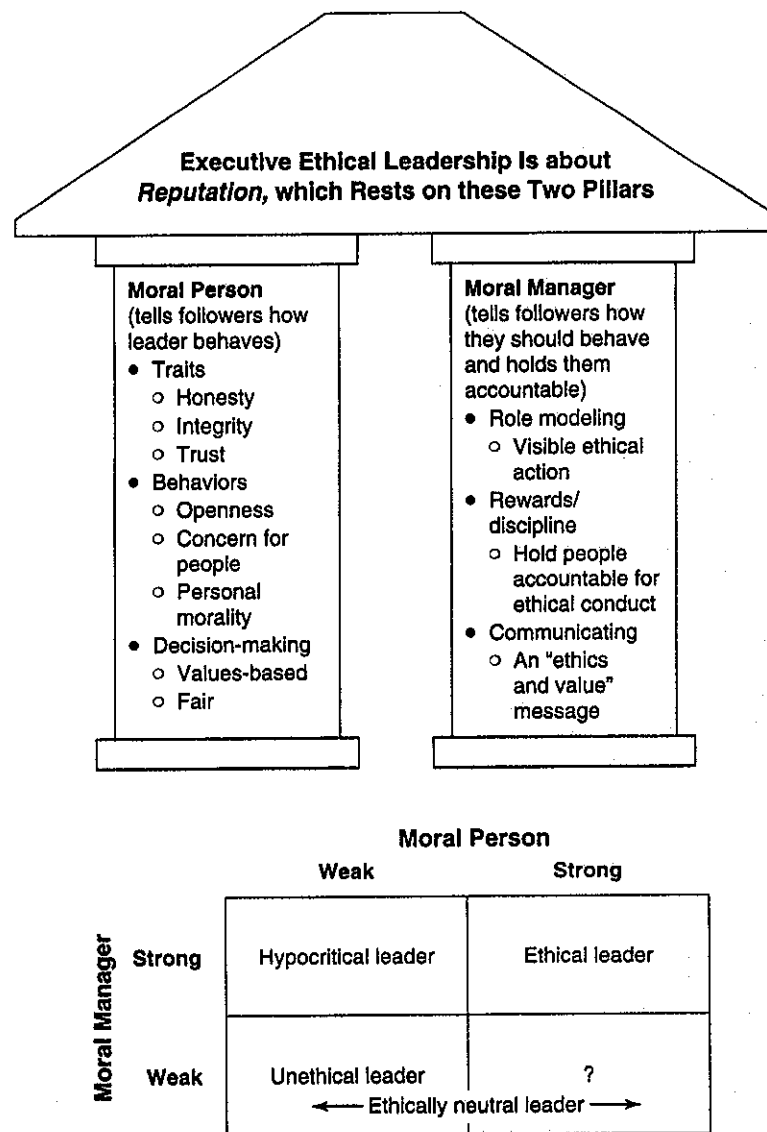
Executive Ethical Leadership Is about *Reputation*, which Rests on these Two Pillars

Moral Person
(tells followers how leader behaves)
- Traits
  - Honesty
  - Integrity
  - Trust
- Behaviors
  - Openness
  - Concern for people
  - Personal morality
- Decision-making
  - Values-based
  - Fair

Moral Manager
(tells followers how they should behave and holds them accountable)
- Role modeling
  - Visible ethical action
- Rewards/ discipline
  - Hold people accountable for ethical conduct
- Communicating
  - An "ethics and value" message

	Moral Person	
	Weak	**Strong**
Moral Manager — Strong	Hypocritical leader	Ethical leader
Moral Manager — Weak	Unethical leader	?

←—— Ethically neutral leader ——→

FIGURE 2-1 **Executive Ethical Leader Reputation Matrix**

The moral person dimension represents the ethical part of the term *ethical leadership*. As a *moral person*, the executive models personal traits such as integrity, honesty, and trustworthiness, traits that long have been known to characterize effective leaders (Bass, 1990; Kouzes & Posner, 1993; Kouzes & Posner, 1995; Schmidt & Posner, 1982; Posner & Schmidt, 1992). More important than personal traits, however, are visible behaviors. These include doing the right

thing, showing concern for people and treating them with dignity and respect, being open, listening, and living a personally moral life. Finally, part of being viewed as a moral person is making decisions in a particular way—decisions that are based on values, fairness, concern for society, and other ethical rules such as the Golden Rule ("Do unto others as you would have them do unto you").

Being a moral person, however, isn't enough to be perceived as an ethical leader. Executives must also act as *moral managers*—they must focus on the leadership part of the term *ethical leadership* by making ethics and values an important part of their leadership agenda and proactively shaping the firm's ethical culture. They do that by conveying the importance of ethical conduct in a variety of ways. The large majority of the messages that employees receive in business are about bottom-line goals. Therefore, senior executives must make ethics a priority if it is to get attention from employees. Moral managers do this by visibly modeling ethical conduct, communicating openly and regularly with employees about ethics and values, and by using the reward system (both rewards and discipline) to hold everyone accountable to the standards regardless of one's level in the organization or the level of productivity. If the organization's top salesperson is caught lying to customers, she must be harshly disciplined.

James Burke, former CEO of Johnson & Johnson, is one of the best-known examples of a highly visible ethical leader. Soon after being appointed CEO in the late 1970s, he challenged his senior managers to revisit and update the company's age-old credo that put caring about customers first in the list of company values. He wasn't willing to have it hanging on the wall unless his senior managers were committed to living it. After much discussion and input from J&J sites around the world, the credo was revised, but its commitment to customers first and foremost remained intact. Less than three years later, in 1982, the Tylenol poisoning crisis occurred in Chicago. The credo was credited with guiding corporate decision makers to make the right choices throughout the crisis.

In that crisis, seven people in the Chicago area died from taking cyanide-laced Tylenol, a painkiller produced by McNeil Labs, a division of Johnson & Johnson. Although the cause was unknown for several weeks, a thorough investigation later proved that the poisonings were the result of external sabotage. Nevertheless, because of the company's clear commitment to customers, the company recalled all 31 million bottles of Tylenol (a retail value of over $100 million) and sent Mailgram messages to more than 500,000 doctors, hospitals, and distributors of Tylenol. It also established a crisis phone line where consumers could call a toll-free 800-number to ask questions about the product. In addition, Burke and other executives were accessible to the press and were interviewed by a variety of media. Johnson & Johnson then offered coupons to entice consumers back to Tylenol and, ultimately, redesigned Tylenol's packaging so that it would be tamper resistant—as it remains today.

Johnson & Johnson's reaction to the Tylenol crisis demonstrated that its credo wasn't hollow. And, by being accessible to the press, its executives displayed concern for consumers by refusing to dodge responsibility or blame any other party for its difficulties. Following the crisis, Burke initiated a regular credo

survey process in which employees were asked about the company's performance with regard to the credo—a process that continues to this day (Treviño, Hartman, & Brown, 2000). It was clear to everyone that Burke really cared about the credo and the values it represented.

Unethical Leadership

Unfortunately, unethical leaders can influence the development of an unethical culture just as much as ethical leaders can influence the development of an ethical culture. In terms of the matrix, unethical leaders are weak moral persons and weak moral managers. In interviews with senior executives, Al Dunlap was cited most often as a senior executive with a reputation for **unethical leadership.** Dunlap's reputation for making struggling companies profitable had a down side—one of his strategies was to slash payroll and fire as many employees as possible, a pattern that earned him the nickname "Chainsaw Al". In fact, John Byrne of *BusinessWeek*, wrote a book about Dunlap. According to Byrne, while CEO of Sunbeam, Dunlap was known for emotional abuse of employees—being "condescending, belligerent and disrespectful." "At his worst, he became viciously profane, even violent. Executives said he would throw papers or furniture, bang his hands on his desk, and shout so ferociously that a manager's hair would be blown back by the stream of air that rushed from Dunlap's mouth." Dunlap also demanded that employees make the numbers at all costs, and rewarded them handsomely for doing so. As a result, they felt pressure to use questionable accounting and sales techniques. Dunlap also lied to Wall Street, assuring them that the firm was making its projections and would continue to reach even higher. In the end, Dunlap couldn't cover up the real state of affairs and Sunbeam's board fired him in 1998. But, he left the company crippled (Byrne, 1999). In 2002, Dunlap settled a civil suit filed by the SEC. He paid a $500,000 fine and agreed never to serve again as an officer or director of a public company.

Hypocritical Leadership

Perhaps nothing makes us more cynical than a leader who talks incessantly about integrity and ethical values, but then engages in unethical conduct, encourages others to do so either explicitly or implicitly, rewards only bottom-line results, and fails to discipline misconduct. This leader is strong on the communication aspect of moral management but clearly doesn't "walk the ethical talk." It's a "do as I say, not as I do" approach. Al Dunlap made no pretense about ethics. All that mattered was the bottom line, and he didn't pretend to be a good guy. But, **hypocritical leadership** is all about ethical pretense. The problem is that by putting the spotlight on integrity, the leader actually raises follower expectations and awareness of ethical issues. At the same time, employees realize that they can't trust anything the leader says. That leads to cynicism, and employees are likely to disregard ethical standards themselves if they see the leader doing so.

Jim Bakker stands out as an excellent example of hypocritical leadership. In the late 1970s and early 1980s, Bakker built PTL Ministries into one of the

world's biggest religious broadcasting empires. At its peak, Bakker's television ministry reached more than 10 million homes and had 2,000 employees. Bakker, along with his wife Tammy Faye, claimed to be doing "the Lord's work" as he raked in millions of dollars, convincing the faithful to purchase a limited number of lifetime memberships in two hotels he claimed would be built at the PTL's Heritage USA Christian theme park. The problem was that the 25,000 lifetime memberships (promising a free annual family stay for four days and three nights) in the Heritage Grand Hotel morphed into 66,683 memberships. And, instead of the limited 30,000 memberships at the proposed Heritage Towers, PTL sold 68,755 memberships. It would be impossible to provide promised services to this many people given the proposed size of the project. The funds donated for these projects were being tapped to support PTL operating expenses, including huge salaries and bonuses for the Bakkers and others. Eventually, the house of cards collapsed, and PTL filed for bankruptcy in 1987, three months after Bakker resigned in disgrace. The IRS revoked PTL's tax-exempt status, and in 1989, Bakker was convicted on fraud and conspiracy charges. He spent eight years in prison (Tidwell, 1993).

Ethically Neutral Leadership

Many top managers are neither strong ethical leaders nor unethical leaders. They fall into what employees perceive to be an **ethically neutral leadership** zone. They simply don't provide leadership in the crucial area of ethics, and employees aren't sure what the leader thinks about ethics or if she or he cares. On the moral person dimension, the ethically neutral leader is not clearly unethical, but is perceived to be more self-centered than people-oriented. And, on the moral manager dimension, the ethically neutral leader is thought to focus intently on the bottom line without setting complementary ethical goals. There is little or no ethics message coming from the top. But, it turns out that such silence sends an important message. In the context of all the other messages being sent in a highly competitive business environment, employees are likely to interpret silence to mean that the top executive really doesn't care how business goals are met (only that they are met), and they'll act on that message (Treviño, Hartman, & Brown, 2000).

Consider Sandy Weill, chairman of the board and formerly CEO of Citigroup. A 2002 *Fortune* magazine article described the firm as a "blockbuster money machine." But, the article also recounted recent allegations. "Citi helped Enron hide debt; Salomon peddled worthless WorldCom debt; Star analyst Jack Grubman recommended Winstar as it was heading for bankruptcy; Salomon rewarded telecom execs with hot IPOs," and more (Loomis, 2002: 74–75). So, the company is spending lots of time and money playing defense with the media. According to *Fortune*, Weill is contrite and has now "gotten religion," if a bit late. Weill has "told his board that he feels his most important job from now on is to be sure that Citigroup operates at the highest level of ethics and with the utmost integrity" (Loomis, 2002: 76). As a result, new procedures and business standards are being developed. However, the article also cites widespread cynicism about

the turnabout, noting that Weill is often "tone deaf" on these issues, and it took a while for Mr. Weill to "get to the party."

At least from the perspective of public perception, Weill seems to exemplify ethically neutral leadership. Being tone deaf on these issues is exactly what ethically neutral leadership is about. Weill's public statement that the "company is too big to micromanage" applies here. He says a CEO relies on "very competent people" and trusts them to do a good job. So, he delegated ethics management to the executives running Citigroup's various businesses. If they thought ethics was important, it got resources and attention. If they didn't, it didn't. And, with corporate rewards focused primarily on the bottom line, there was probably little motivation for managers to attend to such issues. This decentralized approach to ethics management contrasts sharply with John Reed's (the prior CEO's) leadership on ethics issues. Reed encouraged and supported the development of a strong centralized corporate ethics program with global reach. Certainly, Citigroup is much larger, more diverse, and arguably harder to manage now. Nevertheless, if an executive is to be perceived by employees as an ethical leader, a clear ethics message from the top is required—one that is at least as loud as the messages about the bottom line.

Research has found that ethical leadership is critical to employees. In a recent study, unethical behavior was lower, and employees were more committed to their organization, more ethically aware, and more willing to report problems to management in firms that had an ethical culture characterized by top executives who represented high ethical standards, regularly showed that they cared about ethics, and were models of ethical behavior (Treviño, Weaver, Gibson, & Toffler, 1999). But, interestingly, senior executives are often unaware of how important their ethical leadership is. Many believe that being an ethical person who makes ethical decisions should be enough. But it isn't enough. Executives must lead on this issue (be moral managers as well as moral persons) if it is to register with employees. In a highly competitive environment that focuses on the bottom line, employees need to know that the executive leaders in their organization care about ethics as much as they care about bottom line performance. An ethical leader makes it clear that strong bottom line results are expected, but only if they can be delivered in a highly ethical manner.

✦ SUPERVISORS LEAD ON ETHICS EVERY DAY

As important as executives are for setting the ethical tone at the top, designing organizational policies and systems, and modeling appropriate behavior, supervisors are also the ones who actually implement these policies on a day to day basis. They hire, fire, oversee daily work, conduct performance appraisals, and make promotion and compensation decisions, among other activities. And, because most employees work closely with their supervisor, they have many opportunities to observe that supervisor directly in action and to take their cues from his or her behavior. Among the most important cues is how the supervisor treats those he or she is supervising. A supervisor who is an ethical leader is concerned first and foremost about the well-being of his or her people, developing and supporting them in difficult situations.

If you're a leader, it's time to evaluate your own ethical leadership. Would followers say that, as a moral person, your personal/professional behavior is ethical (honest, fair, and trustworthy)? Would they say that you think of other people's needs above your own, and that you take good care of the people who work for you? Would they say that you make good and fair decisions based on ethical principles and values? Would they say that, as a *moral manager,* you communicate loudly and clearly that ethics is as important as bottom-line performance? Do people know that you'll put your money where your mouth is? Have you shown that you would be willing to walk away from business in order to live your principles? Finally, would they say that you hold yourself and everyone else accountable by rewarding ethical performance and disciplining unethical performance even if that means losing business or disciplining a high-level employee or high performer?

Interestingly, many people believe that ethical leadership is mostly about vision and values. But, both of these are highly abstract and future oriented. Research suggests that ethical leadership is more concrete and more about the "here and now." Vision and values set a general direction and tone, but in today's complex and competitive business environment, people need concrete evidence that their leader is a person of integrity who cares about ethics at least as much as bottom-line performance. Employees learn this by observing how leaders behave toward them and others, how leaders make decisions, and whether leaders set explicit ethical standards and take concrete action to reinforce those standards every day.

✦ LEADERSHIP SKILLS ✦

A Guide for Ethical Decision Making

We often find ourselves in ethical binds, at work and in our personal lives. So how should we go about dealing with a situation that calls for an ethical decision to be made? The first step, of course, is to make sure you have all the facts. This might not be as easy as it sounds, but it is vital to the process. Once all the information has been collected, it must be analyzed to determine the appropriate course of action. Several philosophical theories exist that can help serve as a framework for making a morally correct choice. Five of the more popular ethical theories are outlined as follows:

1. *The rights theory.* The main proponent of the **rights theory** was the eighteenth-century philosopher Immanuel Kant. This approach says that in making a decision the basic moral rights of all involved must be protected. Some of the rights that must be considered are:

   a. The right to the truth about things that impact us

   b. The right to privacy (as long as others' rights are not violated)

c. The right to be safe from harm or injury (unless the risk has been taken on knowingly)

d. The right to what has been promised as part of a contract or agreement

2. *The common good theory.* One of the oldest approaches to ethics and states is the **common good theory**, which states that the good of an individual is inseparable from the good of the larger society. Therefore, an ethical decision is one that benefits the most people in society and is made keeping in mind its impact on the community.

3. *The fairness theory.* The **fairness theory** emphasizes that an ethical action treats everyone equally, without showing either favoritism or discrimination against anyone. Before making a decision, the fairness of the consequences must be determined.

4. *The utilitarian approach.* This approach is most widely associated with John Stuart Mill. The **utilitarian approach** asks that all the available alternatives be evaluated and the choice be made by picking the option that causes the greatest good (or the least harm) to the greatest number of people.

5. *The virtue ethics approach.* Aristotle was one of the main proponents of this approach. The **virtue ethics approach** says that when making a decision, we must choose the alternative that builds desirable character traits within us. According to this theory, an action is ethical if it builds within a person virtuous traits such as honesty, selflessness, courage, and so on.

Each of these theories can serve as a backdrop for making a decision. Asking yourself whether a decision, for example, violates the rights of any affected parties may be a good starting point to arrive at an ethically sound decision. Which of these approaches best fit with your personal model of ethical leadership, and in which situations might you see yourself applying each of these theories?

More often than not, leading ethical conduct is about courage. It is about being able to leave behind a sheltered existence to stand up for a cause, about being able to effect change. Is ethically neutral leadership acceptable, or is it the leader's responsibility to lead a paradigm shift? The following essay by Gordon Barnhart talks about leading change and the courage needed to accomplish it.

THE HERO'S JOURNEY
by Gordon Barnhart

The heroic journey is the story of the change process in its healthiest form. The classic heroic journey begins with crossing a threshold, leaving a known world or comfort zone. After crossing that threshold, we face tests and trials that usually require new or altered ways of perceiving, thinking, and acting. As Alice found in *Alice in Wonderland*, things often aren't what they seem. What worked before is no longer effective, and can even be counterproductive or dangerous.

Many journeys are failures because we never really leave the known world. Because we never truly let go, we can never really discover the new truths and the revelations that are possible. Our trials may be physical, intellectual, emotional, or spiritual, and consequently, our changes may be in those same areas. We may face tests in dealing with mistakes and failures; avoiding the seductive lures of taking the easy way out; dealing with uncertainty, doubt, and perhaps despair; and finding sources of energy and renewal along the way.

Few, if any, of the heroes who do cross the threshold must face the trials and tests alone, even though the heroic journey is ultimately an individual one. Almost every journey features helpers of various sorts who can provide direction, tools, nourishment, encouragement, and coaching in coping in the new environment.

Healers will also be present to help overcome the inevitable injuries that befall us on our journeys. As the tests, the help and healing may take the form of physical, emotional, intellectual, or spiritual help. Although the roles of helpers and healers may vary, they will almost always be present in some form. Our challenge is to see them and use their help on the journey.

We may also find companions for part of the journey, just as we're likely to encounter other characters, including tricksters, jokers, allies, enemies, and opponents.

Those of us who successfully meet the challenges of the journey will arrive at the final phase, which is some form of return or completion. We "return" with the gifts that we have discovered, whether they are new truths, new abilities, new technologies, or new opportunities.

The return may be the most difficult part of all because a hero's return may evoke changes that the rest of the "kingdom" does not appreciate. The hero's changes will alter relationships, requiring changes in others that may ripple in many directions and for long distances. The gifts of the hero can easily threaten the status quo.

Sometimes heroes are welcomed and celebrated; sometimes they are ignored. Sometimes they are shunned, reviled, or attacked (even crucified). The reactions hold true in families, organizations, corporations, or communities— regardless of size.

We face major challenges in beginning the journey and crossing the threshold, traversing the unknown and facing the trials and tests found there, and in dealing with the impact of our return.

The hero's journey requires three forms of courage, each more challenging than it first appears:

- The courage to see and speak the truth
- The courage to create and affirm a vision of the desired state
- The courage to persevere, to "hold the course"

Although ethics is clearly important for supervisors, you do not need to be in a formal leadership role for your ethics to have an impact on the world. We recommend that as you read through the different chapters in this text, you continually think about how ethics apply to your daily life and the type of ethical leader you either already are or are seeking to become. The next section provides an example of a guide for ethical decision making that can help you in this journey, followed by an example of three individuals—Roger Boisjoly, Sherron Watkins, and Rosa Parks—who took a strong ethical stand at great professional and personal risk.

ROGER BOISJOLY
The Man Who Tried to Stop the *Challenger*

Roger Boisjoly was a technical troubleshooter at Morton Thiokol Inc. (MTI), a company that manufactured rocket boosters for the National Aeronautics and Space Administration (NASA) when the space shuttle *Challenger* disaster shocked the world and changed his life forever. With more than twenty-five years of experience in the industry, he took very seriously his professional responsibility to make well-informed, fact-based decisions in any projects he undertook. His commitment to voicing the truth before and immediately after the *Challenger* exploded in January 1986 both brought him recognition as a person of ethical courage—and eventually cost him his career.

In January 1985, Boisjoly was involved in a project to improve the performance of the O-rings that served as connectors between segments of MTI's rocket boosters. He found that the seal had allowed hot gas to pass through. In April of the same year, an examination of seals from another rocket again showed that the seals were faulty—the primary seal was completely broken and the secondary seal had also suffered some damage. Boisjoly recognized that the O-rings would not withstand severe cold, but the problem could be corrected if the diameter was increased. However, the management at MTI ignored his memo pointing out the weakness of the seal, and the engineering team watched helplessly as no action was taken to correct the potentially fatal design flaw.

The rules stated that a launch could only take place if both NASA and the contractors gave the go-ahead. So on January 28, 1986, when cold weather conditions were threatening to test the limits of the seals, Boisjoly and other MTI engineers decided that the launch was not a good idea. NASA was prepared to cancel on MTI's recommendation; however, MTI management decided to go ahead because they did not want their relationship with NASA to be in jeopardy. Within seconds of takeoff, Boisjoly and others watched in silent horror as the shuttle exploded into flames, taking with it seven innocent lives and billions of dollars in investment.

Boisjoly had spent one whole year trying his best to be heard, risking his job at times, but he failed to stop the launch. Since the *Challenger* disaster, the final decision to launch rests with the astronauts, and two launches have been stopped. The American Association for Advancement of Sciences recognized Boisjoly's persistence before and immediately following the crash and awarded him the Prize for Scientific Freedom and Responsibility. He subsequently made a career for himself as a forensic engineer. He also travels around the country, sharing his story through lectures and workshops, driving home the importance of ethical behavior and professional responsibility. He often begins his lectures with a video of the shuttle taking off and the shocked faces of the ground crew as their colleagues went down in a ball of fire. Emphasizing that the accident was a result of the combination of poor design, bad weather, and management apathy, he says, "Your first responsibility is to others. Always tell the customer what they need to hear, not what they want to hear. And ask yourself, would you allow a family member to use the product or process with no reservations?"

SHERRON WATKINS
The Whistle-Blower at Enron

Although most adults take their cues for moral behavior from their peers, there are those rare free thinkers who set high standards for themselves regardless of the behavior of those around them. Sherron Watkins is one such person.

In 2001, Sherron Watkins was just another Enron employee who had decided to turn in her high-profile responsibilities and take up a back-office position in order to spend more time with her family. Her decision started a chain of events that finally led to Enron's fall and to her being named one of *Time* magazine's Persons of the Year for her courageous role in blowing the whistle on unethical practices at Enron.

Several times during her career with Enron, Ms. Watkins and other employees had seen warning signs indicating that Enron's accounting practices were going beyond just creative to highly aggressive. In essence, Enron was borrowing heavily and disguising its debts as revenues. Its debt to equity ratio was an astounding 250 percent, and no one, including the bankers and the auditors, was batting an eyelid. When she realized that the firm was excessively over-leveraged, Watkins decided that it was time to act. Her first reaction was to start looking for another job, while preparing to warn incoming CEO Ken Lay of the mess that had been made by his predecessor, Jeff Skilling. Jeff Skilling had resigned a few days after Enron's stock price fell dramatically, and Watkins sent a memo to Ken Lay warning him of the potential disaster. From then on, events unfolded rapidly—the memo made its way to the media, Enron was forced to take a hit of $700 million to its pretax profits, it fired several thousand employees, and filed for bankruptcy in December 2001.

For Watkins, the decision to speak up was not an easy one. She was surrounded by colleagues who, though aware of what went on, had remained silent for two main reasons. The first reason is what she describes as the "frog-in-boiling-water" syndrome, where employees tolerate unethical practices because the gradual increase in the magnitude lessens the impact of such unethical practices on the

conscience. The second reason is that employees draw their cues about acceptable practices from the top management's actions. In Enron's case, there had been continuing instances of senior executives indulging in unethical practices (from using the corporate jet for personal trips to paying themselves huge bonuses while laying off thousands of employees with meager severance packages). Not only did Watkins lack the support of her peers, but she was also perilously close to losing her job, as she found out when she came across a memo from one of Enron's external lawyers suggesting that "the employee who made the sensitive report" be terminated because Texas law provided no protection to whistle-blowers at the time! The knowledge that the company she was trying to save had considered terminating her was, to Watkins, much harder to come to terms with than the threats to her physical safety and her demotion from her plush executive suite to a tiny, shabby little office.

Watkins's commitment to workplace ethics has earned her numerous accolades. She was the recipient of the Court TV Scales of Justice Award and its Everyday Hero's Award, and the Women Mean Business Award from the Business and Professional Women/USA Organization. Barbara Walters included her as one of the 10 Most Fascinating People of 2002. Watkins credits her courage to her small town upbringing. She says growing up in a small town instilled in her the belief that she could make a difference if she really wanted to. And make a difference she did.

ROSA PARKS
A Time to Sit

Rosa McCauley Parks was forty-two that afternoon in Montgomery, Alabama. The soft-spoken woman took the bus every day to her job as a seamstress. She fumed with the injustice and indignity of the bus company and its drivers. Once before, bus driver James Blake had tested her spirit: he let her enter the front door to pay, but then insisted she follow the custom in which blacks then got off and reentered through the back door to claim a seat. This time, when she had paid and moved outside to the rear door, he pulled away before she could reenter. It was an insult that black people faced all the time in Montgomery.

On the next occasion, she was ready for Mr. Blake. He ordered her to leave her seat so a white person could sit, but Parks calmly said no. He insisted, in louder and louder terms. "No," came her reply, just as firmly. It wasn't simply that she was tired. Yes, she was weary from working, but she was more tired of the treatment she and her fellow blacks had to put up with.

What many people don't know is that Rosa Parks was sophisticated about her rights. For twelve years she had been secretary of the local NAACP, watching and learning as the group took on ever more ambitious goals. In addition, shortly before her famous act of resistance, she had participated in a training session at the Highlander School in Tennessee, where blacks and whites met to encourage

each other and learn how to organize opposition to injustice. She was much more than a symbol of resistance and protest; but she was an awfully dignified symbol.

Throughout the eleven-month bus boycott that Parks's resistance prompted, she and her husband endured hate calls, death threats, and eventually, the loss of both of their jobs before segregation in public transportation was struck down by the U.S. Supreme Court in 1956. The Parks moved to Detroit, where Rosa took care of her ailing mother and husband.

Rosa Parks has continued to be active in civil rights, resisting many people's attempts to see her only as a symbol and not as a woman with definite views and convictions. In addition to winning a seat on the board of the Detroit NAACP, she founded the Institute for Self Development, to encourage young people to work for change and to grow as people.

(For more information visit http://www.time.com/time/time100/heroes/profile/parks01.html.)

✦ Chapter Summary

People usually take cues for ethical behavior from the world around them. Therefore, it is critical for leaders not only to model ethical behaviors in their own lives but also to be *perceived* as ethical by those members of their organization who only see them from a distance. An important part of promoting this perception is sending a strong message that ethics are the organization's highest priority. Just as ethical leaders can cultivate an ethical culture, unethical leaders can create and promote an unethical climate throughout the organization. While some unethical leaders make no pretense of what they are, there are others who talk about integrity but practice and encourage unethical behavior. Such hypocritical leaders create a culture of mistrust and cynicism. In addition to ethical, unethical, and hypocritical leaders, there is a fourth category of ethically neutral leaders. These leaders do not take a stand one way or another on ethics, focusing instead on bottom lines. This lack of expression on so important an issue often conveys the message to employees that the end always justifies the means. It is obvious, therefore, that embodying a commitment to ethics through one's actions is paramount in order to be considered an ethical leader.

✦ CREATE YOUR OWN THEORY ✦

We've seen in this chapter that sometimes not taking a stand on an issue can set as bad an example as actually being the perpetrator of unethical behavior. What does this mean for your own leadership style?

In the opening leadership moment, Kelly will face no visibly negative consequences if she remains ethically neutral and does not actively protest

Many of us face this situation in our careers where unethical behavior filters down from the top of the organization. Sometimes, we do nothing, feeling less responsible if the origin of the behavior is somewhere higher up. Other times, the dollar value of the transaction makes an impact on our actions. Is your reaction to unethical behavior the same in all situations, or does it differ depending on circumstances? What criteria do you use to determine whether the line has been crossed?

✦ Key Terms

common good theory

ethical culture

ethically neutral leadership

fairness theory

hypocritical leadership

moral manager dimension

moral person dimension

rights theory

unethical leadership

utilitarianism theory

virtue ethics theory

✦ Questions for Discussion and Review

1. Why is it important for leaders to demonstrate ethical conduct?
2. What impact can a leader's position on ethics have on the culture of an organization?
3. Describe the dimensions of building a reputation for ethical behavior.
4. What is meant by the terms *hypocritical leadership* and *ethically neutral leadership*?
5. How does the rights theory compare with the fairness theory?
6. How does the common good theory compare with the utilitarianism theory?
7. What theory of ethics, in your opinion, prevails at the United Nations?