The taboo against ethics talk in business leadership

Glenn Martin BBus(Hons), MEd, FAITD, CAHRI

There are two attitudes in business towards the discussion of ethics. Companies either talk a lot about ethics, and promote their company values extensively, or they are silent. We know we can't assume that the companies that talk about ethics actually do business ethically. But nor can we assume that the companies that don't talk about ethics are unethical.

Why is it that there seems to be an unspoken taboo against talking about ethics among business leaders? Many leaders will say this is not so – that they are explicit about their values base, and their codes of ethics demonstrate this. However, once we start exploring the many reasons leaders might have to be wary of ethics conversations, the situation quickly reveals its complexity. Perhaps we need to be a little less dismissive of the idea that a taboo exists.

Evidence of talk about ethics

There are two main reasons to think that ethics is happily countenanced in business leaders' discussions. Firstly, most books on leadership give prominence to ethics, values and integrity. For example, James Kouzes and Barry Posner's book, *The Leadership Challenge*[i], now in its fourth edition, frames leadership in terms of five practices. And the first of these is about values.

Kouzes and Posner say, "We want leaders, our data tells us, who are clear about their beliefs and who have a vision about things to come". They urge leaders to clarify their values and set an example through their own actions, and to be honest no matter what: "If people do not trust the messenger they will not believe in the message".

The second reason to think that ethics is accepted on the business agenda is the incidence of codes of ethics and values statements, at least in major corporations. Although Australian corporations have not adopted codes of ethics to the same extent as US corporations, a significant proportion (around 30%) have[ii]. This would suggest that at least these companies have legitimised ethics as an integral aspect of actions and decision-making processes.

Evidence of avoidance

What is the evidence that leaders are shy about discussing ethics? It emerges when you don't ask leaders about ethics, but simply ask them what is uppermost in their mind. A study by the Center for Creative Leadership[iii] asked managers to indicate the three top skills they will need to be an effective leader in the future. The skill that headed the responses was collaboration (indicated by 49% of managers), followed by change leadership (38%), building effective teams (33%), and influence without authority (33%).

The skills that ranked at the bottom were ethical decision-making (8%) and credibility (9%). The survey report comments that these skills are deemed less important for the future. If this is the case, the future will certainly be interesting. We will have collaboration without ethics, and change management without credibility.

Of course, we know that this is the wrong way to interpret the findings. We know that you can't have collaboration without trust, you can't have effective teams without credible leaders. We need to ask, what was the thinking of managers when they responded?

Taking Kouzes and Posner's ideas about the qualities of effective leaders into account, you could argue that managers didn't select skills such as ethics and credibility in their three top skills simply because they are assumed to always be relevant – they are basic to the practice of leadership. Perhaps they were identifying the skills that are becoming more relevant as the environment changes.

However, the alternative explanation is that the study accurately reflects the lack of attention that business leaders give to ethics in practice. It also reflects the enduring influence of the words that Milton Friedman first uttered in 1962: "The business of business is to maximise profit for shareholders"[iv]. He rejected completely the notion that business had any social obligations other than to obey the law, and his words have been repeated vigorously by legions of managers since then.

The business leaders whose companies have codes of ethics might argue that their codes prove that they take ethics into account. We know that this is not necessarily so.

The formulation of ethics codes

One of the great ironies of Enron's collapse was that it had a large and well-funded ethics and compliance department: 150 staff and US$30 million a year as a budget. Arthur Andersen, the auditors who collapsed in its wake, were renowned for their advocacy of ethics codes and ethics training in the industry.

The formulation and promotion of ethics codes is the manufacturing of rhetoric. Rhetoric is valuable for articulating the identity of the organisation in its context, and establishing the company's orientation to its environment. But rhetoric is just half of the story; the organisation then has to establish a positive, dynamic relationship between the rhetoric and business actions and decision-making discussions. At the worst, the primary purpose of having a code of ethics and publicising it is to create the semblance in the public mind that the company acts ethically. It serves as a camouflage for what goes on beneath the surface. It operates deliberately to disguise hypocrisy and unethical practices.

Even where companies are genuine about producing a code, the code can generate an institutionalised and legalised understanding of ethics. (A study of Australian codes of ethics[v] found that lawyers were the predominant group sought out to formulate codes for companies.) It is another big step for managers and workers to incorporate ethical principles into their day-to-day business decision-making behaviour.

Links between talk and action

Ronald Sims and Johannes Brinkmann[vi], in a discussion of Enron, describe four scenarios, according to whether or not companies explicitly acknowledge ethics, and whether or not they seek to act ethically in practice:

- Type 1: No discussion and no attempt to act ethically
- Type 2: Prominent rhetoric but no attempt to act ethically
- Type 3: No discussion but conduct is ethical
- Type 4: Prominent rhetoric and conduct is ethical.

Of course, life is obviously more complex than this, and organisations never fit neatly into a single type. The purpose of the classification is to make helpful distinctions between the orientations of companies, not to over-simplify reality. Ethical issues invariably involve multiple, interacting factors, and the "ethical" choice is often not easy to identify or implement. The point of the classification is to enable companies to clarify what they are striving towards. It's the striving that ultimately defines companies.

Three of the four types are easy enough to understand. Type 1 thinking is what we could politely call "pre-ethical". Leaders who think like this will tell you that business is ruthless, and they are prepared to do whatever it takes to get results.

Type 2 thinking has the same beliefs. The key difference is that leaders who think like this are sophisticated enough to know that they have to pretend to customers, employees, regulators and the public that they are ethical. Ethics for them is just useful rhetoric that comforts those who want to hear it and diverts attention from what really goes on.

Type 4 refers to the relatively few organisations in society who earn the reputation of being both up-front about their ethical commitment and consistently ethical in their conduct. It is always dangerous to start identifying such companies, because that in itself complicates the dynamics. Sometimes that is because the companies become complacent about ethics, and sometimes it is even because they are tempted to trade off the back of their reputation.

What this suggests is that there is a permeable barrier between Types 2 and 4. Organisations can slip between the two easily. Leaders are not always Machiavellian. Sometimes the reality is that they would like to be ethical, and most often try to be ethical, but then they find it is more difficult than they imagined, and conclude that it is just not possible to be ethical and succeed.

This leads us to look more closely at the reasons for not wanting to talk about ethics – even if you intend to (or hope to) do business ethically. The following reasons are derived from my observations of managers and organisations, conversations with many managers, and the work of Joseph Badaracco[vii]. The comments included are sentiments I have heard managers express.

Rationales for the taboo against ethics talk

1. Ethics complicates decisions. It's yet another set of constraints on action – it further complicates decision-making: "We already have to take into account the views of so many different stakeholders and regulators".

2. Ethics reduces your options. Constraining yourself to act ethically narrows your range of choices and makes you more vulnerable to your competitors: "Our competitors would be only too happy to see us try and do business with one hand tied behind our back".

3. Making ethics public exposes you to the whims of extremists. "Once you say you will be ethical, the moral extremists watch everything you do so they can tell you how you've slipped up. If you try to attain a certain standard, they say the standard is not high enough, or that we've breached our own standards. It's like we say we're vegetarian and someone says 'I saw you eat a chicken burger the other day', or 'Why aren't you a vegan?'"

4. Discussing ethics leads to unrealistic expectations. "We don't want to create unrealistic expectations among our customers or employees by saying we are going to be something that we (or anyone else) can't live up to. Remember Bob Hawke saying that 'No child will be living in poverty by 1990.'? We don't want to seen as hypocrites."

5. Awareness of ethical shortcomings. "We know that some of our actions are less ethical than they should be, but you wouldn't survive in business if you did all the things you thought you should do." Leaders may experience guilt and shame, and not wish to draw attention to their failings – but at the same time they do not see their way clear to adopt a more ethical approach.

6. Humility. The positive aspect of this awareness of shortcomings can be an attitude of humility. Leaders know that business is complicated. It involves a host of stakeholders and issues – employees, customers, laws, safety, effect on the environment etc. "We don't want to set ourselves up as 'holier than thou'. Most companies try to do the right thing. We don't want to be self-righteous." They often have the view that most companies, just like them, try to do the right thing, and they don't always succeed. This may be a genuine belief, although it is also used as a rationalisation by some.

7. Ethics is too complex to have to explain your actions publicly. "We do intend to act ethically, but sometimes it's not easy for people to see that, because the reasons are complicated. So it's best not to say anything. If we tried to explain, some people would not understand, and others would distort what we said and use it against us."

The burden of leaders

The reasons given here should at least suggest that ethical conversations dig deep into our conduct. There are still some managers and companies that try to maintain that business is an ethics-free zone. It has its own rules, and it's all about winning. The global financial crisis of late 2008 has pushed the paragon of capitalism, the USA, to intervene in business to an unprecedented extent. Many dry economists are saying that they are having to re-examine their deeply entrenched beliefs that the market always rights itself.

The view that business is not subject to ethical constraints should be regarded as an ambit claim – this is merely what those leaders would like us to believe. If we reject it, as we should, and consciously so, then we have to think again about how to deal with ethics conversations in business.

James Kouzes says that leaders, by the very nature of the role they play and the expectations we have of them, will always have their credibility questioned by those who don't agree with the stands they take. Leaders are inherently in an awkward situation. We demand that they be credible, but we also contribute to undermining their credibility by expecting them to focus on a clear direction for the future and by expecting them to be true to their values.

The general consensus about effective leadership is that setting a vision, goals and standards, and enlisting employees' engagement in the fulfilment of the vision, are fundamental. This much is similar whether you look at Stephen Covey, John Kotter, Tom Peters, David Maister, Peter Drucker, Dave Ulrich or any of a host of others. It would seem, then, that it is best to be explicit about the organisations' ethical values, and about how they translate into day-to-day actions and decision-making.

Sims and Brinkmann, in their analysis of Enron, point to leadership as the critical component of an organisation's culture, because leaders can create, reinforce, or change the organisation's culture. They say this applies particularly to an organisation's ethical climate. Leaders exercise influence in a number of ways, one of which is through attention. What commands their attention will direct the attention of employees – what is praised, what is criticised, what is ignored.

If the leaders of the organisation place all the emphasis on the bottom line, employees believe that financial success is the leading value to consider. In such a context, rules or morality are merely obstacles, impediments along the way to bottom-line financial success. Leaders influence attention, and if they do not consciously and responsibly articulate the values that are to characterise the organisation, they are not exercising leadership.

What we have to hold in tension with this is the recognition that the issues that leaders face are often messy and ambiguous, and fraught with political considerations. Joseph Badaracco says that "simple-looking problems (can) turn out to be treacherous and complicated". In his book, *Leading quietly* (2002), he presents a number of case studies where leaders have had to be both innovative and strategic in how they go about achieving an ethical outcome, and they have also had to be reticent at times. He concludes that it is not always possible to provide a simple, public solution for a situation. These quiet leaders "move carefully, put together contingency plans, and watch their backs".

What we come to is a recognition of the tension between public statements of commitment to ethics and the often difficult reality of putting ethical values into practice. This is especially so because business leaders operate in environments where the stakes are often high and the choice often seems to be between success with ruthlessness and failure with clean hands.

Farrell and Cobbin[viii] point out that many of the organisations which have adopted codes of ethics have devoted more energy to the formulation of the code than to any follow-up activities. They found a low rate of ethics training, or appointment of ethics officers or ethics committees, or available processes for employees to resolve ethical conflicts. Similar findings were discovered by Wood and Callaghan[ix].

It's possible that there is some perverse wisdom in managers not wanting to talk about ethics. Perhaps they know that if they start to do that, they will have to follow through by looking at ways to embed ethics into day-to-day business, and address all the dilemmas that arise once you art to pay attention to ethics.

It should also be recognised that the success of leaders in delivering on rhetoric is not confined to questions of ethics. It is a generic challenge of leaders. If this were not so, it would hardly be necessary for someone to write a book called *Results-based leadership*[x].

Another indicator that producing organisational outcomes that align with the organisation's rhetoric is the central challenge of leaders comes from comments made about the "America's Most Admired Companies" list[xi]. The list is complied annually by the Hay Group and *Fortune* magazine. In announcing the companies that made the 2008 list, Mark Royal from the Hay Group said this year they had focused on how companies manage their employee reward programs.

Royal said, "Our research found that companies who make the lists haven't stumbled on a silver bullet for making employee reward programs work more effectively. They are simply able to execute more successfully on a number of basic HR best practices. Implementation is really the primary differentiator between employee reward programs at companies on America's Most Admired Companies list and their peers."

Many companies have employee reward programs – the words, the ideals. It is the execution, the implementation, the fulfilment, that is not so easy. The disparity between statements of ideals and the current reality is a critical issue for leaders, and one that requires a great deal of their attention.

The need to be explicit about ethics

It may be true that the company that conducts itself ethically without talking about it is better than the company that proclaims itself ethical but is in practice unethical. However, the danger of taking the silent option is that in any ethical dilemma you face, you hedge your bets until the last minute just in case the price of being ethical is more than you want to pay. The problem with this approach is that you are unlikely to take the ethical course of action in those moments when an instant decision has to be made.

The example of Arnott's response to an extortion bid in 1997 is salutary. A threat was made to poison packets of Arnott's biscuits in South Australia and Victoria. The company acted promptly, withdrawing the product and warning the public, at a cost of $22 million. This was an unpalatable decision for the executives to make, but they took the decision clearly and promptly, despite the costs to the business. Executives who seek to manage ethics on the basis of convenience are unlikely to have made this decision.

It is easy to argue in hindsight that Arnott's business recovered, and it would not have if people had died as a result of a failure to withdraw products from sale. But the executives did not know this at the time; their decision could only be made on the basis of what was the ethical thing to do. Executives who are driven only by the bottom-line would find it difficult to look past the immediate losses. Indeed, Arnott's quickly recovered its dominant market share, and it is no coincidence that it was praised for its openness and honesty in dealing with the crisis.

The conclusion? (In my view:) It's more important to be ethical than to say you are ethical, but the best way to be ethical is to state your commitment to ethics, and then work on what that means in practice.

Glenn Martin is a freelance writer on business ethics, training and human resources, and the principal of Ethics and Values in Business. He is the author of the book, *Human values and ethics in the workplace*.

Website: www.ethicsandvalues.com.au email: glennpmartin@optusnet.com.au

ENDNOTES

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