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Moral Person and Moral Manager:

HOW EXECUTIVES DEVELOP A REPUTATION FOR ETHICAL LEADERSHIP

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Plato asked, which extreme would you rather be: “an unethical person with a good reputation or an ethical person with a reputation for injustice?” Plato might have added, “or would you rather be perceived as ethically neutral—someone who has no ethical reputation at all?” Plato knew that reputation was important. We now understand that reputation and others’ perceptions of you are key to executive ethical leadership. Those others include employees at all levels as well as key external stakeholders.

A reputation for ethical leadership rests upon two essential pillars: perceptions of you as both a moral person *and* a moral manager. The executive as a moral person is characterized in terms of individual traits such as honesty and integrity. As moral manager, the CEO is thought of as the Chief *Ethics* Officer of the organization, creating a strong ethics message that gets employees’ attention and influences their thoughts and behaviors. Both are necessary. To be perceived as an ethical leader, it is not enough to just be an ethical person. An executive ethical leader must also find ways to focus the organization’s attention on ethics and values and to infuse the organization with principles that will guide the actions of all employees. An executive’s reputation for ethical leadership may be more important now than ever in this new organizational era where more employees are working independently, off site, and without direct supervision. In these organizations, values are the glue that can hold things together, and values must be conveyed from the top of the organization. Also, a single employee who operates outside of the organizational value system can cost

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the organization dearly in legal fees and can have a tremendous, sometimes irreversible impact on the organization's image and culture.

Moral Person + Moral Manager = A Reputation for Ethical Leadership

These ideas about a dual pillar approach to ethical leadership are not brand new. As the opening quotation suggests, the emphasis on reputation goes back to Plato. Chester Barnard addressed the ethical dimension of executive leadership sixty years ago. Barnard spoke about executive responsibility in terms of conforming to a "complex code of morals"¹ (moral person) as well as creating moral codes for others (moral manager).

If Plato and Barnard had this right, why bother revisiting the subject of ethical leadership now? We revisit the subject because, in our 40 structured interviews (20 with senior executives and 20 with corporate ethics officers), we found that many senior executives failed to recognize the importance of others' perceptions and of developing a reputation for ethical leadership. To them, being an ethical person and making good ethical decisions was enough. They spoke proudly about having principles, following the golden rule, taking into account the needs of society, and being fair and caring in their decisions. They assumed that if they were solid ethical beings, followers would automatically know that. They rejected the idea that successful ethical executives are often perceived as ethically neutral. Furthermore, they assumed that good leaders are by definition ethical leaders. One senior executive noted, "I don't think you can distinguish between ethical leadership and leadership. It's just a facet of leadership. The great leaders are ethical, and the lousy ones are not."

However, a *reputation* for ethical leadership can not be taken for granted because most employees in large organizations do not interact with senior executives. They know them only from a distance. Any information they receive about executives gets filtered through multiple layers in the organization, with employees learning only about bare-bones decisions and outcomes, not the personal characteristics of the people behind them. In today's highly competitive business environment, messages about how financial goals are achieved frequently get lost in the intense focus on the bottom line. We found that just because executives know themselves as good people—honest, caring, and fair—they should not assume that others see them in the same way. It is so easy to forget that employees do not know you the way you know yourself. If employees do not think of an executive as a clearly ethical or unethical leader, they are likely to think of the leader as being somewhere in between—amoral or ethically neutral.

Interestingly, perceptions of *ethically neutral leadership* do not necessarily arise because the leader *is* ethically neutral. In fact, many of the senior executives we spoke with convinced us that it was impossible for them to be ethically

neutral in their jobs, given the many value-laden decisions they make every day. Rather, the perception of ethically neutral leadership may exist because the leader has not faced major *public* ethical challenges that would provide the opportunity to convey his or her values to others. As one executive noted, "They haven't had to make any decisions on the margin . . . once you're faced with [a major public ethical dilemma], you bare your soul and you're one or the other [ethical or unethical]." On the other hand, a reputation for ethically neutral leadership may exist because the leader has not proactively made ethics and values an explicit and evident part of the leadership agenda. Executives must recognize that if they do not develop a reputation for ethical leadership, they will likely be tagged as "ethically neutral." As a result, employees will believe that the bottom line is the only value that should guide their decisions and that the CEO cares more about himself and the short-term financials than about the long-term interests of the organization and its multiple stakeholders.

Figure 1 provides a summary of our study's findings.

Pillar One: Moral Person

Being an ethical person is the substantive basis of ethical leadership. However, in order to develop a reputation for ethical leadership, the leader's challenge is conveying that substance to others. Being viewed as an ethical person means that people think of you as having certain traits, engaging in certain kinds of behaviors, and making decisions based upon ethical principles. Furthermore, this substantive ethical core must be authentic. As one executive put it, "If the person truly doesn't believe the ethical story and preaches it but doesn't feel it . . . that's going to show through. . . . But, [a true ethical leader] walks in [and] it doesn't take very long if you haven't met him before [you think] there's a [person] with integrity and candor and honesty."

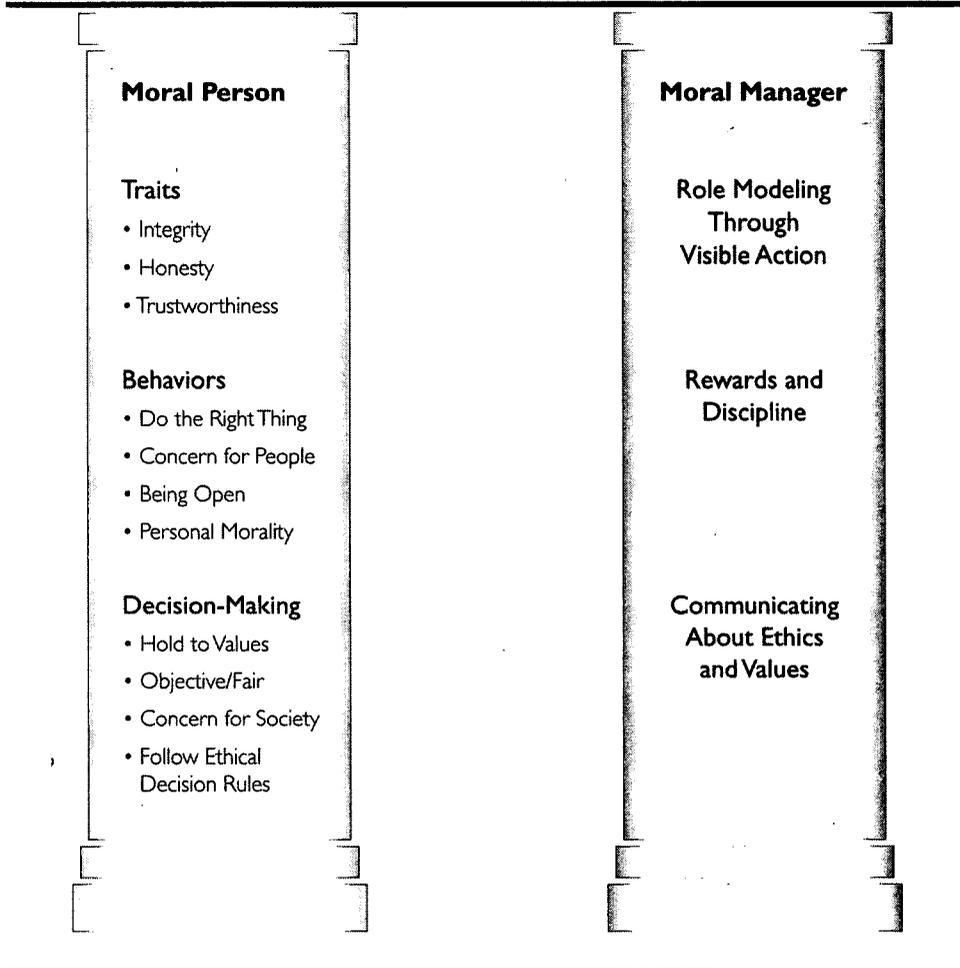
Traits

Traits are stable personal characteristics, meaning that individuals behave in fairly predictable ways across time and situations and observers come to describe the individual in those terms. The traits that executives most often associate with ethical leadership are honesty, trustworthiness, and integrity. A very broad personal characteristic, *integrity* was the trait cited most frequently by the executives. Integrity is a holistic attribute that encompasses the other traits of honesty and trustworthiness. One executive said that the average employee would say that the ethical leader is "squeaky clean." They would think "I know that if I bring an issue to him or her that I can count on their honesty and integrity on this because I've seen their standards and that one, integrity, is one that's very important to them."

Trustworthiness is also important to executives. Trust has to do with consistency, credibility, and predictability in relationships. "You can't build a long-term relationship with a customer if they don't trust you." Finally, *honesty, sincerity,*

particular
Quality

FIGURE 1. The Two Pillars of Ethical Leadership



and *forthrightness* are also important. “An ethical leader . . . tends to be rather candid, certain, [and is] very careful to be factual and accurate. . . . An ethical leader does not sugarcoat things . . . he tells it like it is.”

Behaviors

“Your actions speak so loudly, I can’t hear what you’re saying.” That is the sentiment expressed by one executive. Although traits are clearly important to ethical leadership, behaviors are perhaps more so, and these include: “The way you act even when people aren’t looking.” “People are going to judge you not by what you say but by what you do.” “People look at you and understand over time who you are personally as a result of their observations.” Important behaviors include “doing the right thing,” showing concern for people and treating

people right, being open and communicative, and demonstrating morality in one's personal life.

First and foremost, executives said that ethical leaders *do the right thing*. One retired CEO talked about the founder of his firm, a man who "was known for his strong belief that there is only one way to do business and that's the right way."

Second, executive ethical leaders *show concern for people* through their actions. They treat people well—with dignity and respect. "I think [the ethical leader] treats everybody with dignity—meaning everybody—whether they're at the lowest level or higher levels . . . everyone gets treated with dignity and respect. I've also found that if you treat people with dignity and respect and trust, they almost invariably will respond in that fashion. It's like raising children. If you really don't trust them, they don't have much to lose by trying to get away with something. If they feel you trust them, they are going to think long and hard before they do something that will violate that trust." Several of the executives used the military example. "In the military, the troops eat before the officers. . . . Leaders take care of their troops. . . . A leader is selfless, a leader shares credit, a leader sees that contributors are rewarded."

Being open means that the executive is approachable and a good listener. Employees feel comfortable sharing bad news with the ethical leader. One executive said, "An ethical leader would need to be approachable so that . . . people would feel comfortable raising the tough issues . . . and know that they would be listened to." Another put it this way: "In general, the better leaders that I've met and know are more than willing to share their experiences of rights and wrongs, successes and failures." These leaders do not kill the messenger who brings bad news. They encourage openness and treat bad news as a problem to be addressed rather than punished.

Finally, *personal morality* is associated with ethical leadership. We asked explicitly about personal morality because our interviews with executives took place during the Monica Lewinsky scandal in the Clinton Presidency and the topic was prominent in everyone's mind. When we asked whether personal morality was linked to ethical leadership, most executives answered yes. "You can not be an ethical leader if your personal morality is in question. . . . To be a leader . . . what you do privately reflects on that organization. Secondly, to be a leader you have a greater standard, a greater responsibility than the average person would have to live up to."

Decision Making

In their decision-making role, executive ethical leaders are thought to *hold to a solid set of ethical values and principles*. They aim to be *objective and fair*. They also have a perspective that goes beyond the bottom line to include *concerns about the broader society and community*. In addition, executives said that ethical leaders rely upon a number of ethical decision rules such as the golden rule and

the "New York Times Test." The "New York Times Test" says that, when making a decision, ethical leaders should ask themselves whether they would like to see the action they are contemplating on tomorrow morning's front page. This question reflects the ethical leader's sensitivity to community standards.

To summarize, the "moral person" pillar of ethical leadership represents the substance of ethical leadership and it is an important prerequisite to developing a reputation for ethical leadership because leaders become associated with their traits, behaviors, and decisions as long as others know about them. With the moral person pillar in place, you should have a reputation for being an ethical person. You can think of this as the *ethical* part of the term "ethical leadership." Having a reputation for being a moral person tells employees what *you* are likely to do—a good start, but it does not necessarily tell them what *they* should do. That requires moral managing—taking the ethics message to the rest of the organization.

Many of the executives we interviewed thought that being an ethical person who does the right thing, treats people well, and makes good decisions was necessary *and* sufficient for being an ethical leader. This is not surprising because executives know other executives personally. They have served under them, worked with them, and observed their behavior at close hand. Therefore, in their minds, an executive's ethical traits, behaviors, and decisions are automatically associated with a reputation for ethical leadership. However, some of the executives and even more of the ethics officers noted that being an ethical person was not enough. To develop a reputation for ethical leadership with employees, leaders must make ethics and values a salient aspect of their leadership agenda so that the message reaches more distant employees. To do this, they must be moral managers as well as moral persons. As one executive expressed it: "Simply put, ethical leadership means doing the right thing, and it means communicating so that everyone understands that [the right thing] is going to happen at all times . . . I think that most of the people I've been in business with adhere to the first but do less well with the second. And, in my experience, it is something that has to be reinforced constantly . . . the second part is the hardest."

Pillar Two: Moral Manager

In order to develop a reputation for ethical *leadership*, a heavy focus on the leadership part of that term is required. The executive's challenge is to make ethics and values stand out from a business landscape that is laden with messages about beating the competition and achieving quarterly goals and profits. Moral managers recognize the importance of proactively putting ethics at the forefront of their leadership agenda. Like parents who should explicitly share their values with their children, executives need to make the ethical dimension of their leadership explicit and salient to their employees. Executives who fail to do this risk being perceived as ethically neutral because other more pervasive messages about financial success take over. One CEO put it this way: "We do

some good things [turn down unethical business opportunities, develop people, champion diversity], but compare the number of times that we recognize those [ethical] achievements versus how much we recognize financial achievements—it's not close. I mean, I cringe . . . saying that . . . I'm not saying we don't work at these other things, but . . . the recognition is still very much on financial performance and . . . it's true in almost all organizations . . . And that's what's wrong. That's what's out of kilter."

Our study identified a number of ways moral managers can increase the salience of an ethics and values agenda and develop a reputation for ethical leadership. They serve as a role model for ethical conduct in a way that is visible to employees. They communicate regularly and persuasively with employees about ethical standards, principles, and values. Finally, they use the reward system consistently to hold all employees accountable to ethical standards.

Role Modeling through Visible Action

Role modeling may seem similar to the "doing the right thing" category above. However, role modeling emphasizes *visible action* and the perceptual and reputational aspects of ethical leadership. Some ethical behaviors will go completely unnoticed while others will be noticed and will contribute to a reputation for ethical leadership. Effective moral managers recognize that they live in a fishbowl of sorts and employees are watching them for cues about what's important. "You are demonstrating by your example on and off the job, in other words, 24 hours a day, seven days a week, you're a model for what you believe in and the values." In addition, "if you're unethical . . . people pick up on that and assume because you're the leader that it's the correct thing to do . . . that not only are you condoning it, but you're actually setting the example for it."

The effective moral manager understands which words and actions are noticed and how they will be interpreted by others. In some cases, visible executive action (without any words at all) is enough to send a powerful message. One executive offered the following as an example of the power of executive action. "Some years ago, I was running one of our plants. I had just taken over and they were having some financial troubles. . . . Most of our management was flying first class. . . . I did not want . . . my first act to be to tell everybody that they are not gonna fly first class anymore, so I just quit flying first class. And it wasn't long before people noticed it and pretty soon everybody was flying coach. . . . I never put out a directive, never said a word to anybody . . . and people noticed it. They got the message. . . . People look to the leader. If the leader cuts corners, they say its okay to cut corners around here. If the leader doesn't cut corners, we must be expected not to do any of that around here."

Negative signals can also be sent by visible executive action and moral managers must be particularly sensitive to these. For example, what kind of signal does it send when your organization's ethics policy prohibits employees from accepting any kind of gift from a prospective client and then employees see a group of senior executives sitting in a client's box enjoying a professional

football or basketball game? Unless the CEO is wearing a large sign that says "we paid for these tickets," the message is clear. Ethics policies do not apply equally to everyone. It becomes much easier for an employee to rationalize receiving gifts. According to one interviewee, many executives "wouldn't think twice about it because you don't intend to do anything wrong." However, employees are generally not aware of your *intent*. They see the actions and make inferences based upon them.

Communicating about Ethics and Values

Many executives are uncomfortable talking about ethics and wonder about those who do. In our interviews, some executives expressed concern about the leader who talks about ethics too much. "I distrust people who talk about it all the time. I think the way you do it [ethical leadership] is to demonstrate it in action . . . the more a person sermonizes about it, the more worried I am . . . sometimes you have to talk about it, but mostly you don't talk about it, you just do things." However, moral managers need to talk about ethics and values, not in a sermonizing way, but in a way that explains the values that guide important decisions and actions. If people do not hear about ethics and values from the top, it is not clear to employees that ethics and values are important. You may not feel comfortable talking about ethics if it means discussing the intricacies of Aristotle or Kant. However, talking about ethics with your employees does not mean that at all. It means talking about the values that are important to you and the organization. It is a bit like teaching children about sex. Parents can choose to avoid the uncomfortable subject, hoping that their children will learn what they need to know in school; or, they can bring an expert home who knows more than they do about the physiology of the human reproductive system. However, what parents really want their children to know about and adopt is a set of values the family believes in such as love, respect, and responsibility. To be most effective, that message must come from parents, in words and in actions. Similarly, the message about the values guiding decisions and actions in business should come from senior leaders.

The Reward System

Using rewards and discipline effectively may be the most powerful way to send signals about desirable and undesirable conduct. That means rewarding those who accomplish their goals by behaving in ways that are consistent with stated values. "The most senior executive should reward the junior executive, the manager, the line people who make these [ethical] decisions . . . reinforcement is very important."

It also means clearly disciplining employees at all levels when they break the rules. A financial industry executive provided the following two examples. "If there's a situation within the corporation of sexual harassment where [the facts are] proven and management is very quick to deal with the wrongdoer . . . that's leadership. To let the rumor mill take over, to allow someone to quietly

go away, to resign, is not ethical leadership. It is more difficult, but you send the message out to the organization by very visible, fair, balanced behavior. That's what you have to do."

"If someone has taken money, and they happen to be a 25-year employee who has taken two hundred dollars over the weekend and put it back on Monday, you have to . . . fire that person. [You have to make] sure everybody understands that Joe took two hundred dollars on Friday and got [fired] . . . [they must also] be assured that I did have a fact base, and that I did act responsibly and I do care about 25-year people."

Another financial industry executive talked about how he was socialized early in his career. "When I was signed . . . to train under a tough, but fair partner of the firm . . . he [said] there are things expected from you . . . but if you ever make a transaction in a client's account that you can't justify to me as being in the best interest of the customer, you're out. Well that kind of gets your attention."

An airline executive said, "we talk about honesty and integrity as a core value; we communicate that. But then we back it up . . . someone can make a mistake. They can run into the side of an airplane with a baggage cart and put a big dent in it . . . and we put our arm around them and retrain them. . . . If that same person were to lie to us, they don't get a second chance . . . When it comes to honesty, there is no second chance."

The moral manager consistently rewards ethical conduct and disciplines unethical conduct at all levels in the organization, and these actions serve to uphold the standards and rules. The above reward system examples represent clear signals that will be noticed and that demonstrate clearly how employees are held accountable and how the leader backs up words with actions.

In summary, to develop a reputation for ethical leadership, one must be strong on both dimensions: moral person and moral manager. The ethical leader has a reputation for being both a substantively ethical person and a leader who makes ethics and values a prominent part of the leadership agenda.

What Does Ethical Leadership Accomplish?

The executives we talked with said that ethical leadership was good for business, particularly in the long term, and avoids legal problems. "It probably determines the amount of money you're spending in lawsuits and with corporate attorneys . . . you save a lot of money in regulatory fees and lawyer fees and settlement fees." They also said that ethical leadership contributes to employee commitment, satisfaction, comfort, and even fun. "People enjoy working for an ethical organization" and it helps the organization attract and retain the best employees. "If the leadership of the company reflects [ethical] values . . . people will want to work for that company and will want to do well." Finally, employees in an organization led by an executive ethical leader will imitate the behavior of their leader and therefore the employees will be more ethical themselves.

FIGURE 2. Executive Reputation and Ethical Leadership

| | | | |
|----------------------|---------------|---------------------|--------------------------|
| Moral Manager | Strong | Hypocritical Leader | Ethical Leader |
| | Weak | Unethical Leader | Ethically Neutral Leader |
| | | Weak | Strong |
| | | Moral Person | |

? ← Ethically Neutral Leader → ?

Next, we combine the two pillars of ethical leadership into a two by two matrix that can help us think about the kinds of reputation an executive can develop (see Figure 2). As noted, the combination of strong moral person and strong moral manager produces a reputation for ethical leadership. However, what happens if the leader falters in one of these areas? The matrix suggests the following possibilities: one may develop a reputation as an unethical leader, a hypocritical leader, or an ethically neutral leader.

The Unethical Leader

A leader who is perceived to be weak on both dimensions will develop a reputation for unethical leadership. A number of executives we spoke with named Al Dunlap as a prime example of someone with a reputation for unethical executive leadership. *Business Week* recently published excerpts from John Byrne's book about Dunlap entitled *Mean Business*.² The article describes Dunlap as the "no-nonsense executive famous for turning around struggling companies—and sending their shares soaring in the process." However, Dunlap was also known for tirades against employees "which could reach the point of emotional abuse." "He was 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." He used the promise of huge rewards to get "employees to do things they might not otherwise do." In order to make the numbers that Dunlap demanded, creative accounting techniques were employed and "dubious techniques were used to boost sales." He also lied to Wall Street analysts. "Despite the chaos inside the company, Sunbeam's chief kept up a steady drumbeat of optimistic sales and earnings forecasts, promises of tantalizing new products, and assurances that the Dunlap magic was working." In the end, the lies could

no longer cover up what was really going on. Wall Street abandoned the company and the board of directors fired Dunlap. Sunbeam was left crippled and the company continues to struggle today.

On the moral person dimension, Dunlap was found to be dishonest, he treated people horribly and made decisions based upon the financial bottom line only, disregarding the interests of multiple stakeholders in the process. On the moral manager dimension, his own behavior, communications, and the reward system were used to send a single consistent message. The bottom line was the only thing that mattered.

The Hypocritical Leader

A leader who is not perceived to be a strong ethical person but who attempts to put ethics and values at the forefront of the leadership agenda is likely to be perceived as a hypocritical leader who "talks the ethics talk" but does not "walk the ethics walk." In such cases, people tend to see the talk only as window dressing. They watch for actions to match the words and if there is a mismatch, the words are dismissed. As suggested above, some executives expressed concern about the leader who talks about ethics too much. In terms of the leader's reputation for ethical leadership, communicating about ethics and values, without the actions to match, is probably worse than doing nothing at all because talk without action places a spotlight on the issue that would not otherwise be there. As a result, employees become cynical and distrust everything the leader says. They also figure that they too can ignore ethical standards if they perceive that the leader does so.

The Ethically Neutral Leader

This category generated a lot of comment. Half of the executives rejected it out of hand. The other half recognized its existence and almost all of the twenty corporate ethics officers we talked with readily acknowledged it. On the moral person dimension, it is most appropriate to say that this person is perceived to be *not clearly unethical*, but also not strongly ethical. Consider what people say about ethically neutral leaders. In terms of traits, the ethically neutral leader is seen as more self-centered than other-centered. In terms of behaviors, ethically neutral leaders are less open to input from others and they care less about people. They are less compassionate. In terms of decision making, ethically neutral executive leaders are thought to have a narrower view than do ethical leaders. They focus on financial ends more than the means that are of interest to ethical leaders. They also are more likely to base decisions upon the short-term bottom line and they are less concerned with leaving the organization or the world a better place for the future. Interestingly, much of the emphasis seems to be on what the ethically neutral leader is *not* (not open to input, not caring, not focused on means, not concerned with leaving a legacy). This is important because it means that to perceive ethical leadership, followers need evidence of positive ethical traits, behaviors, and decision processes. Lack of

awareness of these positive characteristics leads to the perception that the leader is ethically neutral. Clearly, employees must be aware of these positive attributes in order for them to infer the existence of ethical leadership.

When asked to talk about ethically neutral leaders, people said virtually nothing about moral managing (role modeling, communicating, the reward system). Given that employees make sense of the messages they do get, the ethically neutral leader's focus on the short-term bottom line gets employees' attention by default. If that is what the leader is focusing on, it must be the only thing that is important. One executive said, "Ethics hasn't been on the scorecard for what's important here . . . It's kind of like quality. Quality is something that we slipped away from and someone had to say, 'It's important.' Maybe the same is true of ethics . . . we need a Deming . . . to remind us of how important it is."

Perhaps the most important outcome of ethically neutral leadership is that employees then think that ethics is not particularly important to the leader, "So they're left deciding on their own what's important in a particular situation." This means that they are acting without clear guidance about the ethics and values of the organization. The leader has not demonstrated it, has not thought through it, has not given an example of it, has not talked about it, and has not discussed it in an open forum.

Cultivating a Reputation for Ethical Leadership

Given the importance of ethical leadership, we offer the following practical steps executives can take to cultivate a reputation for ethical leadership.

Share Your Values: Who You Are as an Ethical Person

"Ethical leadership is not easy . . . the temptations and the rewards for unethical behavior are great. So, ethical leadership requires a discipline, a mental and personal discipline that is not easy to come by." Some senior executives arrive in their leadership positions with all of the necessary cognitive and emotional tools to be an active ethical leader. Part of the reason many of them ascend to senior leadership positions is because they have a reputation for integrity, for treating people well and for doing the right thing. They have likely had a lifetime of personal and work-related mentors and experiences that have molded and reinforced their values. By the time they reach the executive level, these values are so solid, that when challenged, the leader holds to them without question.

On the other hand, senior executive positions have a way of challenging your values in ways you may not have been challenged before. If you think that this aspect of your leadership needs work, devote energy to developing this side of yourself. Read books. Attend workshops and seminars with other senior executives who share your concerns. Work with a personal coach. Talk with your spiritual advisor about how your values can be applied in your work.

It then becomes particularly important to share this side of yourself. Find out what employees know about you and how they think of you in ethical leadership terms. You may be a strong ethical person, but your employees may have no way of knowing that. Most people do not have an accurate view of how others see them, especially when it comes to ethics. Surveys consistently find that most people think of themselves as above average and more ethical than their peers. However, the only way to honestly assess where you stand in terms of others' perceptions is to ask for candid input. A leader should "always have someone who can tell the emperor that he has no clothes." So, ask those closest to you. You can also survey your employees to find out how much they know about you as an ethical leader. Be open to what you learn and do not be surprised if employees say they simply do not know. For example, if you have not been outspoken on ethics and values issues, or you have not managed a highly public crisis that provided an opportunity for employees to learn about your values, you may be surprised to learn that employees do *not* know much about this aspect of your leadership. They may even see you as "neutral" on the ethics dimension. Talk to your communications people and your ethics officer, if you have one, about how you might successfully convey your values to employees on a regular basis. Figure out a way to open the lines of two-way communication on ethics and values issues. Ask employees to share the ethical dilemmas they face and to let you know what kind of guidance they would like from you.

***Assume the Role of Moral Manager:
Chief Ethics Officer of Your Organization***

"Ethical leadership means that the person, the leader, who is exercising that leadership is well-grounded in a set of values and beliefs that we would view as being ethical. However, in a leadership sense . . . it means that the leader sets an example because ethical leadership doesn't just mean that leader, it means the entire organization. If there isn't an observed ethical leadership at the top, you won't find it in the organization."

As noted, moral management requires overt action on the part of the executive to serve as a role model for ethical behavior in highly visible ways, to communicate about ethics and values, and to use the reward system to hold people accountable. James Burke, former CEO of Johnson & Johnson provides an excellent example of highly visible action that gets everyone's attention. Soon after Burke assumed the presidency of Johnson & Johnson, he brought together 28 senior managers to challenge the age-old corporate credo. He asked them to talk about whether they could really live by the document that had been hanging on corporate walls for years. "If we can't live by this document then it's an act of pretension and we ought to tear it off the walls, get rid of it. If we can live with it but want to change it that's okay too, if we can agree on what the changes should be. And, we could also leave it the way it is." According to Burke, people "stayed up all night screaming at each other." When they were done, they had updated the credo. They then took it to J&J sites around the

world, released a revised credo in 1979, and committed the organization to it. Less than three years later, the Tylenol poisoning occurred and lots of folks were waiting to see whether management would live up to the credo values. As every student of business ethics and corporate crisis management knows, they did, and the case is now held up as a premier example of good business ethics. Burke does not take credit for J&J's success in handling the corporate crisis. He attributes the success to the value system that had been articulated. However, clearly he was responsible for guiding the organization through the values articulation process and for making the credo prominent in the corporate culture and consciousness. As another executive put it, "all the written statements in the world won't achieve ethics in an organization unless the leader is perceived as being very serious and committed."

Following the Tylenol crisis, in 1985 Burke launched the credo survey process. All employees were surveyed regarding the company's performance with respect to the credo. Based upon the results, managers held feedback and problem-solving sessions with their employees and developed action plans to address problems. The survey process continues today on a biannual schedule under Burke's successor, Ralph Larsen, and remains a valuable way to keep attention focused on the credo and the values it represents.

To better integrate the Credo into the reward system, Larsen instigated a "standards of leadership" program which holds leaders at all levels accountable to the credo values. "At the important succession planning meetings, when upward mobility in the company is discussed, 'Credo Values' is first on the agenda. 'Business Results' is next in line. The following behaviors associated with Credo values are noted: 'Behaving with honesty and integrity. Treating others with dignity and respect. Applying Credo values. Using Credo survey results to improve business. Balancing the interests of all constituents. Managing for the long term.'"³

Finally, violations of Credo policy are handled swiftly and clearly. In one incident that involved infiltration of a competitor's sales meeting, President Larsen wrote the following to his management, "Our behavior should deeply embarrass everyone associated with Johnson & Johnson. Our investigation revealed that certain employees had engaged in improper activities that violated our policies. These actions were wrong and we took steps, immediately, to discipline those involved and guard against a recurrence of this kind of activity."⁴

Conclusion

Being an ethical leader requires developing a reputation for ethical leadership. Developing a reputation for ethical leadership depends upon how others perceive the leader on two dimensions: as a moral person and as a moral manager. Being a moral person encompasses who you are, what you do, and what you decide as well as making sure that others know about this dimension of you as a person. Being a moral manager involves being a role model for ethical

conduct, communicating regularly about ethics and values, and using the reward system to hold everyone accountable to the values and standards. Ethical leadership pays dividends in employee pride, commitment, and loyalty—all particularly important in a full employment economy in which good companies strive to find and keep the best people.

Notes

1. C. Barnard, *Functions of the Executive* (Cambridge, MA: Harvard University Press, 1938 and 1968), p. 279.
2. J.A. Byrne, "Chainsaw," *Business Week*, October 18, 1999, pp. 128-149.
3. L. Foster, *Robert Wood Johnson* (State College, PA: Lillian Press, 1999), pp. 645-646.
4. *Ibid.*, p. 646.

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