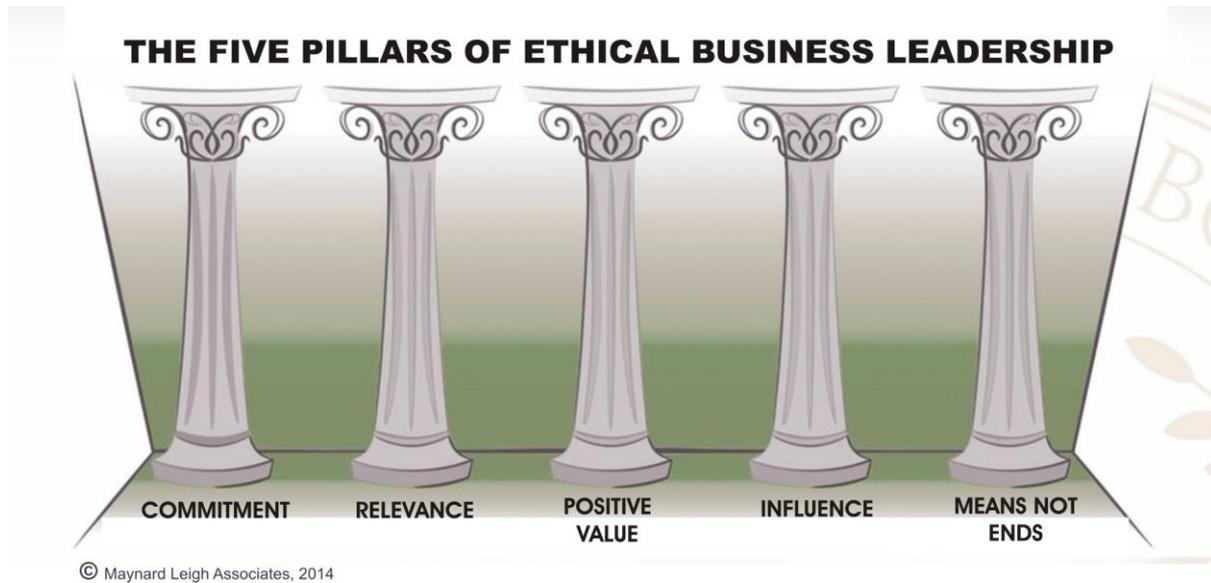


FRONT PAGE



A White Paper from www.ethical.leadership.co.uk

May 2014

INTRODUCING THE PILLARS

Even if they do not always recognise them, all business executives face moral dilemmas. What then is new?

First, there's the rising demand to build ethics into the core of companies' strategies. Not only do regulators expect this, so does the rest of society.

These days "society" can make its voice heard more forcefully than in the past. For example, when the board of Mozilla, the open source software company behind the Firefox web browser appointed a new chief executive in March 2014 the result exploded in its face.

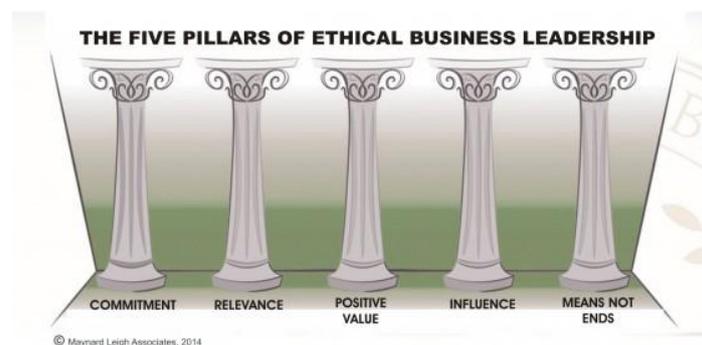
The board had knowingly hired someone who openly opposed gay marriage. This proved unacceptable to many of the liberal-minded techies. They saw this as an ethical, not managerial issue. The resulting social media reaction morphed into commercial retaliation; within weeks the new CEO resigned.

Second, companies need to embed ethics into the management culture. Only when this happens can leaders be sure most people will perform with integrity. There are no short term fixes. Each firm must arrive at its own way of doing this, rather than just going through the motions.

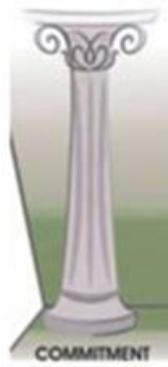
Sometimes the problem is a business leaders simply does not "get" ethics. For example Fortune Magazine described Citibank as "ethically tone deaf" and its leader as "ethically neutral" as how to apply ethics within the bank's particular business context.

Leaders who see the importance of ethics still face the puzzle of making relevant choices as to what this means for their company. Take for example the recent UN report on what amounts to a Nazi regime in North Korea. With a catalogue of terrible human abuse and genocide should a responsible business leader say nothing about this in public, offer no "company view", remain silent?

In the end, the choices seem endless, even unmanageable. This is where the five pillars of ethical leadership in business come in handy. They are Commitment; Relevance; Positive Value; Influence; and Means not Ends.



Used in combination they can help leaders set an ethical direction and establish the essential ethical tone.



Commitment

The first pillar is an essential starting point for leaders in business wanting to get a grip on ethics.

This pillar requires a leader to show a wholehearted and public sharing of their ethical position. Only through a personal willingness to fully engage will each leader make an impact within their own organisation, let alone play a part on a wider stage.

This may seem obvious. Yet too many business leaders seem to believe they can spout about ethics without ever demonstrating a real conviction of its importance to both themselves and their business.

“If you want to lead, have the courage to do it from the heart.”

Gail McGovern, president and CEO of the American Red Cross. Gail J. McGovern

Commitment therefore always starts from a personal view of what is right, what is responsible. This is why we often hear about leaders needing to hone their moral compass and others complaining about the task:

“Life is hard enough, and I think this constant lecturing on ethics and on integrity by many stakeholders is probably the most frustrating part of the equation. Because I don’t think there are many people who are perfect,”

Sergio Ermotti, CEO, UBS[5]Sergio Ermotti of UBS

Ermotti is an ethically tone deaf leader. Ethics in business is nothing to do with being perfect. It’s about making difficult choices and being determined to make sure the company does what is right.

This translates into behaving with integrity, openness, respect for others and to contributing in constructive ways to the community in which the firm operates. Increasingly stakeholders and the rest of us expect these things!

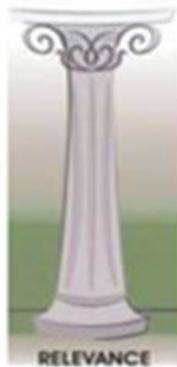
Commitment also means embracing common values that inspire both the leader and other stakeholders.

“I think there are universal values—common norms of integrity, honesty, consideration for others. I believe the responsible company operating to high standards with sound values can make a major contribution.”

Sir Mark Moody-Stuart, former CEO of Shell . Mark Moody Stuart

TAKE ACTION!

- 1) Clarify your own values and those of your organisation—how well do they match?
- 2) Share agreed values frequently—be seen talking about them and explaining why they matter so much
- 3) Show you're willing to exert great effort to get people committed to the core values and what they mean for each person
- 4) Through your everyday actions demonstrate integrity, fairness and respect of others
- 5) Set in motion structures, procedures and processes to help people understand what' expected of them when it comes to ethical choices—don't just delegate, be concerned with how these are implemented .



Relevance

The second pillar guides leaders to ensure ethical concerns connect to their business—directly or indirectly. A legitimate leadership concern is therefore:

“How does ethics affect my business”

Some leaders deal with this tricky issue by denying ethics has any relevance. They argue ethics is just too subjective and messy. This attitude looks increasingly short-sighted and in the long run not sustainable.

Across the world there are growing pressures on all businesses to act responsibly and make a positive, not a negative contribution. However, there are so many ways a business can pursue ethical values the choices can seem confusing.

For example, how far should a company aim for sustainability in all its activities? Or bribery may be forbidden but how will the organisation deal with environments where this appears the only way to win sales? The company may be committed to openness and transparency, but will this prevail in the face of demands for privacy?

This second pillar therefore encourages a leader to ask:

“Is this ethical choice relevant to our business?”

This is not always simple to answer. Take for example modern day slavery. This may appear to have little immediate relevance or connection with a company’s daily concerns. But how the company sources its raw materials and transforms them into final products and delivers them to customers can seriously damage both brand and reputation. No responsible company wants to be seen supporting inhuman practices.

A coffee company for instance faces relevance issues when sourcing its raw beans. Are these picked from sustainable plants without deforestation? Does it pay a living wage to locals and avoid damaging their way of life? Positive answers in the buying strategy can connect with the business by becoming a selling point for the final product, as has happened with the Fair Trade brand.

Many issues apparently far removed from any direct relevance may actually have an important connection. For example, most outsiders would hardly expect the profit hungry Goldman Sachs bank to support women in poverty around the world. How could this be relevant to its money-making obsession?

Yet the bank's philanthropic foundation funds over 10,000 poor female entrepreneurs. Such an investment occurs of course, partly from a need to polish a tarnished image and to please employees – giving it a relevance of a kind.

Funding poor women entrepreneurs has unexpected benefits. The bank expects to tap governments and others companies to turn its \$50 million donation into a fund of more than \$600 million.

Similarly Cheyne Capital, one of London's oldest hedge fund managers, seems a typical hard-core capitalist enterprise, bent only on money making. Yet a new fund has raised up to £300m to invest in projects with a positive social impact.

Behind this seemingly contradictory activity, lies a trend in which many investors show increasing interest in how their money can tackle social issues, as well as achieve a financial return.

Making sure the company's ethical focus has business relevance tends to be mainly a long term decision. "Doing what's right" is not a cost benefit exercise, it's a moral choice.

Expecting a short-term, measurable ROI from such actions would be myopic. It is more sensible to ask: "does this ethical choice have relevance to us in the long term and if so how?"

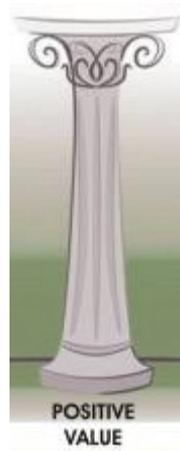
"A creative and well managed corporate and social responsibility programme is in the best interests of all our stakeholders – not just our consumers – but also our shareowners, employees, customers, suppliers and other business partners who work together with us.
Extract from Cadbury Schweppes Good Governance report

Action

Using the second ethical leadership in business pillar suggests various practical actions:

- 1) When facing business choices with an ethical or social implication ask: does this have relevance to our business now and the long term?

- 2) Check the ethical implications of the company's goals and business plans—explore for hidden benefits and unexpected drawbacks.
- 3) Ensure all business decisions pass through an ethical “filter” to assess the wider impact on people and the planet.
- 4) Seek ways to make a positive, not a negative impact on the operating environment and “do what’s right.”
- 5) Establish clear ethical guidelines to ensure all stakeholders understand and subscribe to them



Add Positive Value

Aghast at reading his obituary while still alive, [Alfred Nobel](#) saw his likely legacy to the world would be entirely negative. He redeemed himself by switching his wealth from armaments into launching the [Nobel Peace prize](#).

The third pillar of Ethical Leadership in business prompts leaders to look for ways to add positive, rather than negative value to what their companies do.

The notorious [Koch brothers](#) for instance devote a considerable portion of their enormous income to funding political campaigns against every kind of environmental or other regulation.

If “doing what’s right” threatens their huge profits they will seemingly oppose it. They disguise this with a smokescreen of [philanthropic donations](#) to prestige institutions like the [Smithsonian](#). Critics brand their destructive network of think tanks, foundations, lobbyists and tame politicians “[the Kochtopus](#)”.

Similarly Exxon, the largest oil company in the world has been the loudest voice protesting against effective international action on climate change. Much of the effort though has shifted to untraceable sources of money supporting an obstructive stance aimed at undermining efforts to gain agreement on positive action.

Such activities do not add positive value. Instead they play an entirely negative and destructive role. They protect narrow, vested interests at the expense of the rest of humanity; quite simply they are unethical.

Presented by some leaders as a business constraint, ethics can offer many unrecognised opportunities. There is now evidence for instance, that acting ethically is strongly linked to

- 1) Improved financial performance
- 2) Reduced operating costs
- 3) Enhanced brand image and reputation
- 4) Increased sales and customer loyalty
- 5) Raised productivity
- 6) Reduced regulatory oversight
- 7) Improved access to capital

These are positive benefits only the most ethically tone deaf will choose to ignore.

While acknowledging the real value that ethical culture brings to the bottom line, even informed leaders still worry about how to get the job done. This third pillar of adding value encourages leaders to go beyond management as usual. Too many companies do the minimum to reach ethics and compliance standards. This leads to diminishing gains instead of increasing ones.

How can a leader use ethics to add positive value?

A practical step is to make sure ethics and compliance are integrated into operational decision making. That is ensures ethics permeates the culture and drives changes in behaviour. A further benefit from this is to reduce inconsistencies and the impact of silos

Another positive leader action is seeking to alter the company mind-set. Instead of ethics and compliance being seen as a defence against misconduct, instead it is used to play a vital role in contributing to high performance.

For example, only around four out of ten companies integrate ethics and compliance objectives into their performance and compensation reviews. This provides yet more scope to ensure ethics add positive value to the company.

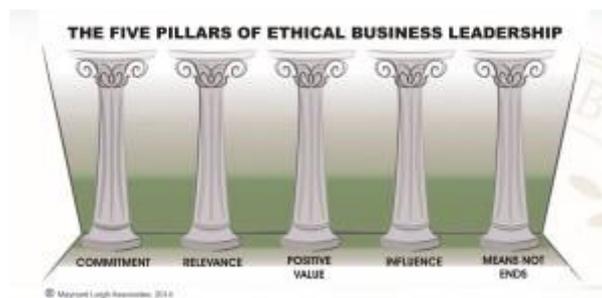
Finally, leaders can ensure ethics add positive value by ensuring they help their company reach beyond education and communication, to affect a variety of company practices including:

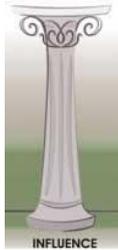
Performance appraisals, promotion and recruiting practices, what is celebrated and rewarded and punished, customers' services, and sales training.

ACTION

Here are some basic actions leaders can explore:

- 1) Can ethical issues and concerns be readily discussed in my company without negative consequences?
- 2) Does my senior management support and practice high standards of ethical conduct
- 3) Is my organisation clearly committed to serving the interests of all its stakeholders including customers, employees, suppliers and community, not just shareholders?
- 4) Is the behaviour of our employees consistent with the organisation's mission, vision and values?
- 5) When we advance or reward our employees is this based on behaviour that demonstrates our company values?





Influence

The fourth pillar is about Influence. Basically this prompts leaders to ask about any particular ethical concern:

“How can we influence through our ethical actions?”

When it comes to influencing, business leaders face many choices, including support for numerous good causes. Each will have its own emotional trigger or special appeal. Whatever the final choice it will be at the expense of many alternatives.

The many options for exercising influence can leave business leaders puzzled and sometimes overwhelmed. For instance, what criteria should they use in making the choices?

Body Shop famously campaigns against animal testing of cosmetics. It selected an ethical concern which it could both influence and use to build its brand. Similarly, Goldman Sachs Group Inc plans to launch a \$600 million fund to help women entrepreneurs in developing countries. It's an effort to aid thousands of business owners and, of course, affect the bank's somewhat tarnished image.

In asking "How can we make a difference through an ethical concern?" leaders may not always be self-serving. Instead, they may be directing the company's efforts in an entirely logical direction. For instance, when IBM decided to use its computer skills to develop a system to help in disaster situations it was focusing its influence where it was most likely to make a difference.

The Starting Point is Values

For leaders wanting to maximise their moral or ethical influence the best starting point is values. These drive behaviour and spending time clarifying and promoting them can help in many ways, including rationalising what to influence.

However, those with a worldly perspective sometimes try to avoid ethical issues altogether in running their business. They may argue there is no singular truth on which to base ethical or moral behaviour.

“Well, ethical, I don't quite know what the word means”

is the notorious response by Richard Desmond to a question from the Leveson Committee of Enquiry into the British press. Yet certain values do have a universal appeal and business leaders cannot avoid taking them into account. For example

- Courage and integrity—the ability to “do what’s right” even when no one is looking
- Love and Kindness—these show up as an organization “with heart”, where compassion, kindness and mutual respect guide people in facing ethical challenges.
- Justice and Fairness—these exist for example when individuals feel they receive a fair return for the energy and effort they expend.
- Means matter as much as ends—see fifth Pillar.
- Self-Control-- Putting personal motivations aside and acting with objectivity by doing what is right.

These are generally better guides for how to run a successful organisation than a single-minded obsession with profits, or a myopic concern with meeting all legal standards.

A one-track concern with financial returns puts the emphasis on accountability, rather than being a responsible member of either an organisation or wider society-- which is what ethics is all about; and because some course of action is technically legal does not necessarily make it “right.”

Influence of shareholders

Some business leaders use the supposed demands of shareholders as an excuse for avoiding involvement in ethical matters. They argue ethics is too messy to be useful, and shareholders are only concerned with making the most from their investment.

Famously, the economist Milton Friedman argued corporations only had a duty to maximise their profits. In fact, since the 1960s a significant and still growing percentage of shareholders now has non-financial expectations about corporate conduct. This appears first as shareholder activism and secondly as socially responsible investing.

Ethical business leaders must now therefore take into account the social concerns of stakeholders. For example in the US, both Dow Chemical—over its sale of Napalm, and GM—over board representation, strongly resisted the idea shareholders could influence fundamental aspects of their business. Both companies lost the argument in court, and more importantly have lost it within society as a whole.

Reflecting this we have seen a growing willingness by investors to challenge companies over many social concerns and particularly about remuneration policies.

There is increasing consensus of what society expects from corporate conduct. This affects both what business leaders must do about ethical issues and how they go about using their own levers of influence.

Action

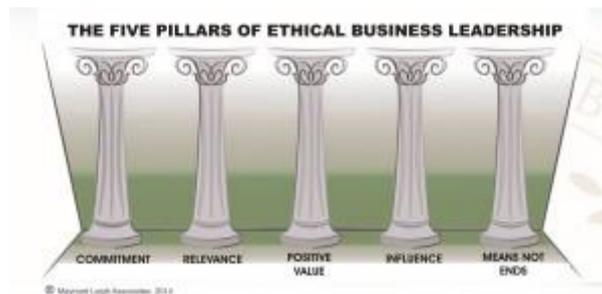
There are some well documented and practical ways to steer a company down a path of ethical business behaviour. Apart from formal regulations directing companies to behave in specific ways, there are countless guides, case studies and tools available to convert ethical influence into practical action. Some of the most practical steps are:

- Identify core values and make sure they suffuse the organisation's direction and strategy.
- Establish a formal statement of organizational values and provide a framework of expected behaviour.

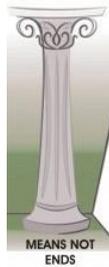
"..values must lead and be right up there in a company's mission statement, strategy and operating plan.

Ben & Jerry's Ice Cream founders Ben Cohen and Jerry Greenfield

- Review standard operating procedures and performance measurements—make sure these do not encourage unethical behaviour.
- Lead by example—don't just talk about values and ethics, personally demonstrate them
- Use existing capabilities to benefit the wider community in which the company operates



Means not just ends



The fifth pillar requires a focus on means and not just ends. This is when a leader shows concern with *how* their organisation achieves its goals, not just the goals themselves.

Siemens built all the nuclear plants in Germany – a country that used a lot of nuclear power. In 2011 the company withdrew from the nuclear energy business. But Siemens didn't quit because of market conditions. It did not say:

“We're pulling out because the German government's move away from nuclear means there won't be money in it”.

Instead the company said it was ending its work in nuclear power because of society's clear shift. It chose to avoid any future involvement whatsoever in a technology whose only purpose was to be used in nuclear energy. Its decision reflected an ethical choice--avoiding the taint of a “bad product” – rather than a simple market calculation.

This Fifth Pillar encourages a macro view, to look beyond the financial bottom line at the social, environmental, economic and ethical implications of what the company does.

For example, making a profit can be ethical, but this may still be wrong if *how* it's achieved depends on being unethical, for example cheating customers, destroying the environment, harming employees.

One of the most commonly reasons for misconduct continues to be pressure to do “whatever of takes” to meet business goals. Another factor is having in place systems that rewarded results over means.

This fifth Pillar requires leaders to make decisions without regard to their personal interests. Instead, the focus shifts to the “right decision” for the client or customer--what’s right for investors, what’s right for the firm, what’s right for the community, and even the world.

If the only way to solve a company deficit is through dishonesty neither you nor the company will be sustainable. Quite simply an ethical end does not justify the means.

The fifth Pillar says "how we get there" is just as critical as "where do we want to go"--the actual destination. The implication is the need to build relationships to release the energy and creativity of people inside and outside the organization.

For example, in 2004 Kimberley-Clerk faced a fierce global campaign against its supply chain practices, particularly around deforestation.

Rather than acting defensively, the corporation opened a face-to-face dialogue with their adversary. It even explored ways they could work together. This led to the joint creation of fibre-sourcing standards, issued in 2009. These have since influenced sourcing practices in the wider market.

Ways to take the lead on means and not just ends include using corporate governance; stakeholder engagement; distinguishing leadership from management; and managing risk and reputation. Action in all these areas can help promote a responsible organisation. In every case though, it is down to the individual leader to decide what is right—that is they must take an ethical stance-- to use their moral compass to set the organisation moving in the right direction.

Take for instance the area of corporate governance. This is how the company keeps all its policies and processes ethically sound. Experience shows though, it's not enough to rely on regulations, codes and monitoring behaviour.

Instead, governance must be treated as a cultural issue, an area in which “how we do things round here” has far more influence than yet more efforts and investments trying to exert managerial control.

Similarly, stakeholder engagement is another way leaders can hone their ethical credentials. Stakeholder groups want consistency and transparency, so ethical business leaders make sure this happens. There are some useful “norms” beginning to emerge in this area to which leaders can refer if necessary.

These may take the form of an annual report for stockholders, an open-door policy for employees or a social media account where customers can leave feedback. Essentially, the ethical leader makes sure everyone commits to the stakeholder engagement process, from the front-line customer service manager through to the business owner and CEO.

ACTION

- 1) Regularly review how goals are achieved in terms of acceptable norms, not just the goals themselves
- 2) Look beyond the financial bottom line to assess the social, environmental, economic and ethical implications of what the company does.
- 3) Avoid over reliance on formal governance measures to stay ethical, check the effectiveness of the culture--"how we do things round here".
- 4) Involve all stakeholders in staying ethical, seeking their full engagement in being a responsible company
- 5) Seek to bring consistency and transparency to the company's decision making process.

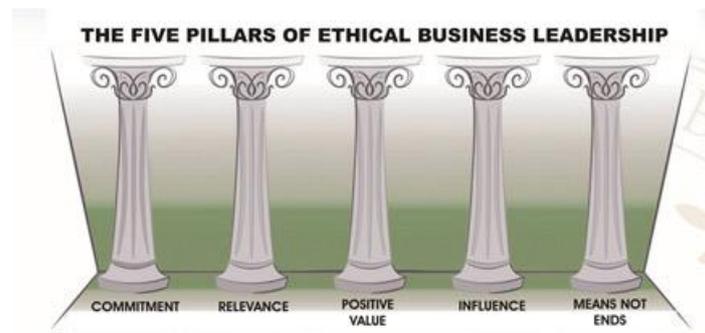
Five Pillars, countless ethical positions

“What is judged as ethical, and what an ethical choice would look like, is subjective and varies among individuals and among and within cultures and organisations”

Institute of Business Ethics, Occasional Paper No 8 2013

Taken together, the five pillars help think through and clarify the approach to ethical leadership in business. In combination they require companies to go “beyond compliance”, which is still the main focus of most of today’s leaders, and focus attention on organisational culture.

Often those running organisations do not know how to lead ethically. They struggle to articulate their commitment to ethical standards, behaviour and practices. The five pillars provide a useful structure to support this struggle.



Here's how Maynard Leigh Associates can help you **make sense of ethical leadership**

- **Help you clarify what business ethics mean for your particular organisation**
- **Coach you to understand what it means in practical ways to be an ethical leader**
- **Run internal programmes to identify and develop core values affecting company culture**
- **Assist leaders to establish and communicate leadership tone—inspiring people to act responsibly**
- **Develop managers' and leaders' confidence to talk about and promote business ethics**
- **Advise on generating employee ethical engagement—where people go beyond the basic rules of compliance**
- **Develop new, creative ways to encourage people to speak up about ethical issues**
- **Strengthen HR Team and their ethical role**
- **Run forum theatre sessions to communicate about ethics in a highly interactive way**
- **Write an article or feature for you on ethical leadership for your publication**
- **Be a keynote speaker about ethical leadership at your next company or public event**



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