

3.6: Developing Your Values-Based Leadership Skills

Learning Objectives

1. What ethical challenges do managers likely face?
2. Why are ethics relevant to principles of management?
3. What decision-making framework can you use to help integrate ethics into your own principles of management?

Ethical Challenges Managers Face

It's late at night and the office is quiet—except that you've got a nagging voice in your head. Your product is already two weeks behind schedule. You've got to get it out this week or lose the deal. But you've discovered a problem. To correct the problem would mean another 3-week delay—and you know the client won't go for that. It's a small error—it'll probably never become an issue. What do you do?

Managers face these kinds of issues all the time. Ethical dilemmas can arise from a variety of areas, such as:

- Advertising (desire to present your product or service in the best light)
- Sourcing of raw materials (does the company buy from a supplier who may be underpaying their people or damaging the environment?)
- Privacy (should the company have access to private e-mails that employees write on company time? or the Web sites they visit during work hours?)
- Safety (employee and community)
- Pay scales (relation of the pay of top executives to the rest of the company)
- Product pricing policies (variable pricing, discounts)
- Communication (with stockholders, announcements of plant closings, etc.)

It's easy to think that people who behave unethically are simply bad apples or have a character flaw. But in fact, it's often the situation or circumstances that create the ethical pressures. A global study of business ethics, published by the American Management Association, found that the main reasons for a lapse of ethics are:

1. Pressure to meet unrealistic business objectives/deadlines.
2. A desire to further one's career.
3. A desire to protect one's livelihood.

You may have developed your own personal code of ethics, but the social environment of the organization can be a barrier to fulfilling that code if management is behaving unethically. At Enron, vice president Sherron Watkins pointed out the accounting misdeeds, but she didn't take action beyond sending a memo to the company's chairman. Although she was hailed as a hero and whistleblower, she in fact did not disclose the issue to the public. Similarly, auditors at Arthur Andersen saw the questionable practices that Enron was pursuing, but when the auditors reported these facts to management, Arthur Andersen's managers pointed to the \$100 million of business they were getting from the Enron account. Those managers put profits ahead of ethics. In the end, both companies were ruined, not to mention the countless employees and shareholders left shattered and financially bankrupt.

Since 2002, when the Sarbanes-Oxley Act was passed, companies have been required to write a code of ethics. The act sought to reform corporate governance practices in large U.S. public companies. The purpose of the rules is to "define a code of ethics as a codification of standards that is reasonably necessary to deter wrongdoing and to promote honest and ethical conduct," including the ethical handling of actual or apparent conflicts of interest, compliance with laws, and accountability to adhere to the code. The U.S. financial crisis of late 2008 pointed out that other areas, particularly in the financial services industry, needed stiffer regulations and regulatory scrutiny as well, and those moves will begin to take effect in early 2009. Some companies go a step further and articulate a set of values that drives their code of conduct, as "Procter & Gamble's Values and Code of Ethics" shows.

Procter & Gamble's Values and Code of Ethics

Procter & Gamble Company lives by a set of five values that drive its code of business conduct. These values are:

1. We are data-based and intellectually honest in advocating proposals, including recognizing risks.
2. *Passion for Winning* – We are determined to be the best at doing what matters most. We have a healthy dissatisfaction with the status quo. We have a compelling desire to improve and to win in the marketplace.

3. *Leadership* – We are all leaders in our area of responsibility, with a deep commitment to delivering leadership results. We have a clear vision of where we are going. We focus our resources to achieve leadership objectives and strategies.

We develop the capability to deliver our strategies and eliminate organizational barriers.

4. *Trust* – We respect our P&G colleagues, customers and consumers, and treat them as we want to be treated. We have confidence in each other's capabilities and intentions. We believe that people work best when there is a foundation of trust.

5. *Ownership* – We accept personal accountability to meet our business needs, improve our systems, and help others improve their effectiveness. We all act like owners, treating the Company's assets as our own and behaving with the Company's long-term success in mind.

Importance of Ethics in Management

Ethical behavior among managers is even more important in organizations because leaders set the moral tone of the organization and serve as role models. Ethical leaders build trust in organizations. If employees see leaders behaving unethically, chances are the employees may be less inclined to behave ethically themselves. Companies may have printed codes of ethics, but the key standard is whether leaders uphold those values and standards. We tend to watch leaders for cues on appropriate actions and behavior that the company expects. Decisions that managers make are an indicator of their ethics. If the company says it cares about the safety of employees but then does not buy enough protective gear for them, it is not behaving in line with its code. Likewise, if managers exhibit unsafe behavior or look the other way when employees act unsafely, their behavior is not aligned with their stated code.

Without integrity, there can be no trust. Leadership is based on trust. Ethics drive effectiveness because employees know they can do the right thing decisively and with confidence. Ethical behavior earns the trust of customers and suppliers as well. It earns the public's good will. Ethical managers and ethical businesses tend to be more trusted and better treated. They suffer less resentment, inefficiency, litigation, and government interference. If top management cuts corners, however, or if they make shady decisions, then no matter how good the code of ethics sounds, people will emulate the questionable behavior, not the code.

As a manager, you can make it clear to employees that you expect them to conduct business in an ethical manner by offering seminars on ethics, having an ethics hotline via which employees can anonymously raise issues, and having an ombudsman office or ethics committee to investigate issues.

Integrating Ethics into Managerial Decision Making

Ethics implies making a choice between decision-making rules. For instance, when choosing between two suppliers, do you choose the cheapest (decision rule 1) or the highest quality (decision rule 2). Ethics also implies deciding on a course of action when no clear decision rule is available. Dilemmas occur when the choices are incompatible and when one course of action seems to better serve your self-interest but appears to violate a moral principle. One way to tackle ethical dilemmas is to follow an ethical decision-making process, like the one described below.

Steps in an Ethical Decision-Making Process

1. Assess the situation: What are you being asked to do? Is it illegal? Is it unethical? Who might be harmed?
2. Identify the stakeholders and consider the situation from their point of view. For example, consider the point of view of the company's employees, top management, stockholders, customers, suppliers, and community.
3. Consider the alternatives you have available to you and how they affect the stakeholders:
 - consequences
 - duties, rights, and principles
 - implications for personal integrity and character
4. How does the action make you feel about yourself? How would you feel if your actions were reported tomorrow in the *Wall Street Journal* (or your daily newspaper)? How would you explain your actions to your mother or to your 10-year-old child?
5. Make a decision. This might involve going to your boss or to a neutral third party (such as an ombudsman or ethics committee). Know your values and your limits. If the company does nothing to rectify the situation, do you want to continue working for the company?
6. Monitor outcomes. How did the decision work out? How did it turn out for all concerned? If you had it to do over again, what would you do differently?

If you see unethical behavior in others, confronting it early is better. Early on, you have more of an opportunity to talk with the person in a fact-finding (rather than an accusatory) way. The discussion may nip the problem in the bud and prevent it from escalating. Keeping silent because you want to avoid offending the person may lead to much greater problems later on. As French playwright Jean-Baptiste Moliere wrote, “It’s not only for what we do that we are held responsible, but for what we do not do.”

Key Takeaway

Management involves decision making, and decisions often have an ethical component. Beyond personal ethics or a moral code, managers face making decisions that reflect the company as a whole, affecting its future success and vitality. Ethics doesn’t just mean following the law but acting in accordance with basic values.

Exercises

1. What are the consequences of unethical behavior?
2. If you were writing a code of ethics for your company, what would you include?
3. In times of economic downturn, is ethical behavior a luxury?
4. How would you handle an ethical violation committed by one of your employees?
5. Nobel laureate economist Milton Friedman said that companies should focus on maximizing profits, not social responsibilities or purposes. Do you agree with this view? Why or why not?
6. What aspects of P-O-L-C would be most likely to change based on what you have learned in this section?

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