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Item Type	Article
Authors	Becker, Gerhold K., 1943-
Publisher	American Scholars Press, Inc.
Rights	With permission of the license/copyright holder
Download date	2026-09-25 19:56:40
Link to Item	http://hdl.handle.net/20.500.12424/173719

MORAL LEADERSHIP IN BUSINESS

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Abstract: The paper argues for a new focus on moral leadership in business. Drawing on the Confucian vision of leadership, it explores, in the first part, the view that genuine leadership is based on moral principles and the vision of a good life for followers as well as leaders, and it is this that gives it legitimacy. The second part draws on both modern experimental research findings in psychological economics and ancient Confucian insights, to show that business is more deeply rooted in moral background institutions than commonly believed. In the third part, the paper concludes that while moral leadership is grounded in the personal morality of authenticity and the solid structures of corporate ethics, it can only succeed when leaders walk the talk. The article concludes with a case study of a scandal concerning Siemens and attempts by its top management to set the conditions for a fresh start.

Keywords: moral leadership, self-interest, authenticity, corporate responsibility.

LEADERSHIP

Two Contrasting Conceptions

Considerations about moral leadership in business and government are challenged by the hard facts of business reality and inspired by the moral vision of a good life. In anthropological terms, moral leadership stands in the tension between a pessimistic outlook that regards human nature as morally flawed and self-centered and an optimistic perspective that points to the seeds of morality, cooperation, and fairness. “The gulf between how one should live and how one does live is so wide that a man who neglects what is actually done for what should be done moves towards self-destruction rather than self-preservation. The fact is that a man who wants to act virtuously in every way necessarily comes to grief among so many who are not virtuous. Therefore if a prince wants to maintain his rule he must be prepared not to be virtuous, and to make use of this or not according to need” (Machiavelli, 1999, p. 50).

Niccolo Machiavelli’s book *The Prince* is arguably one of the most astute leadership manuals ever written that lays bare the mechanism of power and its underlying psychology. Its tenets apply almost as well to a modern corporation as to a Renaissance state. In *The Prince* Machiavelli painted for the new class of powerful individuals, who emerged during the Italian Renaissance, a leadership ideal that identifies self-interest as the overriding motivational force, and efficiency as its exclusive purpose. Ethics stands for a nice and lofty ideal that may be admired by simpletons but is ignored by the wise and manipulated for their own purposes by the hard-nosed realists who seek to make the most of the world as it is; they are the real leaders who know how to rule. Their political wisdom is grounded in the following observation: The answer to the question “whether it is better to be loved than feared” is that “one would like to be both the one and the other; but as it is difficult to combine them, it is far better to be feared than loved if you cannot be both...for love is secured by a bond of gratitude which men, wretched creatures that they are, break

when it is to their advantage to do so; but fear is strengthened by a dread of punishment that is always effective” (Machiavelli, 1999, p. 54). Note the pessimistic outlook on both human nature and society: human beings are utterly selfish and their destructive tendencies can be held in check only by force from outside.

Now the other view. It presents a powerful concept of leadership that takes a positive and even optimistic approach to human nature. Perhaps for that reason, it never really failed to fascinate, from the early days of Chinese history up to the present. It is the Confucian vision of virtue (de) and morality that lies at the heart of every human activity, particularly at the heart of leadership: “The Master said: Exemplary persons (junzi) understand what is appropriate (yi); petty persons understand what is of personal advantage” (Ames & Rosemont, 4:16). Or: “Wealth and honor are what people want, but if they are the consequence of deviating from the way (dao), I would not have part in them” (Ames & Rosemont, 4:5). Further: “Governing with excellence (de) can be compared to being the North Star: the North Star dwells in its place, and the multitude of stars pay it tribute” (Ames & Rosemont, 2:1). Finally: “If people are proper (zheng) in personal conduct, others will follow suit without need of command. But if they are not proper, even when they command, others will not obey” (Ames & Rosemont, 13:6).

These words of wisdom encapsulate conceptual signposts that mark out the solid ground on which a viable theory of moral leadership can be built that is neither too lofty a construction nor too easily weighed down by fears of futility or pessimism.

The Power of Leadership – A Reminder

Today, leadership has proliferated into many fields and leaders can now be found in various areas of society. While politicians and government leaders are still the most visible representatives of leadership, the enormous financial assets held by multinational corporations, which in some cases exceed the reserves of individual countries, suggest that the power of business leaders may compete with that of governments. In democratic governments, policy decisions typically represent compromises between elected members of parliament, their various factions, coalition partners, and interest groups. Business leaders, however, are accountable only to the shareholders and their board of directors. Bad decisions by government leaders may be remembered in the next elections at the ballot box and lead to the defeat of the government. While business leaders too can be dismissed for bad management or wrong decisions, they are, as various recent examples illustrate, usually handsomely compensated with a golden handshake - and always seem to fall on their feet by quickly finding another top position somewhere else.

Thus one of the questions usually asked when something went wrong is whether the checks and balances of business leaders are really adequate to their power. Business leadership is characterized by asymmetrical power-authority relationships in hierarchical organizations. It can be exercised by “coercion (the possession of, and threat to use, the means of inflicting pain), reward (the possession of, and the promise to bestow, pleasure) and legitimate authority (warrant to speak for the group)” (Newton, 1987, p. 74). Powerful CEOs can close down whole departments that no longer fit in with their favorite business strategy or seem too costly. They can move their factories to low-cost countries, they have the power to “fire or demote, they can pay bonuses and promote, and the organizational chart backs up their right to command the obedience of their subordinates” (Newton, 1987, p. 75). In addition, they are largely in charge of setting the parameters that will define their companies’ corporate culture, code of conduct, or

operational principles; and this is one aspect of leadership that is of greatest significance in our present context.

In most countries, most notably in the United States, the influence of business leaders even extends well beyond their own enterprises and into the heart of government. Through donations to political parties, lobbying activities, and direct pressure they seek to tip political decisions in their favor. In his farewell speech to the nation almost fifty years ago (17 January 1961), president Dwight D. Eisenhower felt the need to draw attention to one of the most powerful but shady influence groups in his country, for which he coined the term “military-industrial complex.” Due to its potential for a “disastrous rise of misplaced power,” he called all Americans to “guard against the acquisition of unwarranted influence (...) by the military-industrial complex” (Eisenhower, 1960). At the end of George W. Bush’s presidency, it seems that his advice has been largely ignored and the influence of the military-industrial complex on government has only grown stronger.

While in public life it is ultimately the law that sets enforceable limits to business leaders and their deals, the law is neither able nor the best possible tool for the protection of the interests of companies, shareholders, employees, and consumers. This suggests that a new focus on leadership in business is needed and that, above all, it must be on its moral implications.

Semantic Connotations of Leadership

Prior to exploring this moral dimension of business leadership further, we need to reflect in passing on the very terms “leader” or “leadership” as they carry some heavy emotional and normative baggage. Their meaning is historically and socially constructed and thus does not carry everywhere the honorific connotation it seems to have in the English language. In America, the phrase ‘he or she is a real leader’ is a compliment and leadership the focus of numerous training courses that promise to turn (average) managers into (great) leaders by teaching them some special skills and psychological tricks. The cultural attitude toward the word leadership seems also to influence the direction of research. “In America, leadership has positive moral connotations embedded in it, which may explain why an overwhelming number of articles focus on charismatic, transformational, transforming and, most recently, authentic leadership” (Ciulla, 2005, p. 325).

In Germany and Italy, however, the words *Führer* and *duce* sound very different and recall the dark episodes in their recent histories. This may be one of the reasons why in Germany leadership research is frequently located within an organizational and political discourse that is intertwined with and seeks justification from general ethics. Leadership ethics (*Führungsethik*) thus is a sub-discipline of managerial ethics, which in turn is a sub-discipline of organizational ethics (Steinmann & Löhr, 1994). The so-called Munich school of economic ethics even integrates it within the basic framework of economic activity or at the “macro” level, since on this view ethical decision making of individuals or organizations are of minor importance as their moral space is seriously limited by the economic system (Homann, 2001).

I will try to steer a middle-course by claiming a genuine moral responsibility for business leaders that is complemented by norms of corporate ethics. I will argue that leadership today would be impoverished if it were exclusively based on power or the fear of punishment. Neither would its implicit assumptions be sound, nor its strategy successful. My thesis is therefore: leadership must be equally based on moral principles and the ethical vision of a good life in the emphatic sense of the term. Its power and authority

must have moral legitimacy by extending beyond individual selfishness, and its commitment to ethics must have not merely instrumental, but intrinsic value. That is to say, the moral dimension that gives leadership its authenticity transforms leaders from power-hungry individuals into persons respected by peers and subordinates alike. Moral leaders represent values that are not confined to the secrecy of boardrooms and centers of power but are universally recognized as the fundamental building blocks of a life worth living.

FOUNDATIONS OF MORAL LEADERSHIP

The Standard View of Business Leadership

Much of the skepticism about moral leadership in business is grounded in the strange but popular assumption that business operates in amoral space and any concern for ethics is either unproductive or outright detrimental. Why then would 'good' companies need moral leaders? For some, the very term 'business ethics' is little more than an oxymoron: either you do business, or you are ethical; you can't have both. It is not really surprising that such a view also affects the public perception of business leaders. Only a handful of them is seen as committed to moral principles, quite a number are regarded as outright immoral and unethical, but the vast majority is thought to be amoral as they lack moral awareness and believe that business is something like an ethics-free zone without a moral dimension. According to a recent survey, only nine percent of Germans have faith in business leaders and trust them; among all the elites, business leaders rank last, – and that was even before the global economic crisis (Jörges, 2008).

If we examine the philosophical implications of this view a little more deeply, we discover a specific picture of humanity, human agency, and – in particular – of the business person. In ideal-typical overexposure, it is the picture of the lonely, highly rational individual whose sole interest is self-preservation. All actions are, ultimately, motivated by self-interest. In a world in which everyone is my potential enemy, self-preservation is always a shifting goal, since I can never know how much self-protection is enough. This explains much of the stressful dynamics of modern life, particularly in business and politics, which requires ever increasing efforts to secure (individual and collective) survival.

It is an extension of this view that sees business exclusively defined by economic factors, which are driven by the rationality of individual self-interest. This is the familiar construct of the homo economicus that still holds sway over many. While they may complain about the cold world of self-interest, they have nevertheless resigned to it as the best possible play-ground for doing business, since it still holds the promise of general predictability of human interaction. On the assumption of self-interest as the sole motivation in each and every market player, the specter of irrational markets gives way to the calculations of economics and its scientific models of markets and consumer behavior. To the extent that ethical values do in fact hold influence on the general public, economists of this persuasion tend to regard it as an aberration in the system that can be taken care of either by mere conformity of economic activity with ethical norms, or by instrumentalizing ethics as a means to increase profit. It is not important whether something is being done for genuine ethical reasons, all that counts is that it is seen as such by the general public. If ethics helps increase profit, – all the better and it will be employed exactly as long as it delivers.

To illustrate this point, look at environmental concerns. Since the public cares about the environment and expects business to minimize ecological damage, companies around the globe all of a sudden have discovered their heart for nature and are presenting themselves as environmentally responsible actors. Not everyone, however, is sincere, and in a number of cases critics have argued that what is being claimed as

environmental responsibility amounts in fact to little more than “green-washing.” Companies are proud to take credit for some well publicized protective measures, but hide the fact that they still cling to their old and wasteful ways of production.

A case in point is the trading of environmental certificates under the Clean Development Mechanism (CDM), an offshoot from the Kyoto Protocol that allows the crediting of emission reductions from greenhouse gas abatement projects in developing countries. Ten years after the adoption of the Kyoto Protocol, the CDM has become an immense global market of a value of several billion Euros. Yet the CDM has also recently been heavily criticized for not delivering on its environmental and sustainable development objectives. In various instances, companies simply bought certificates without assuring the stipulated additionality of sustainable development projects in developing countries. The overall contribution of the CDM to assisting host countries to achieve sustainable development is therefore rather small.

Similar doubts have been raised about some companies’ honesty in their commitment to Corporate Social Responsibility (CSR). Since good CSR seems to increase the value of companies, it is tempting to use it for the appeasement of a weary public and to avert legislation on emission standards that would decrease profit.

The philosophy of self-interest and self-preservation is thus incapable to recognize any genuine role for ethics in business transactions and instead responds to conflicts through evasion of responsibility and make-belief. The famous Kantian alternative between acting merely in conformity with moral principles and acting on moral principles is unavailable. Though this picture of the human being has been painted in rough strokes, it may explain some of the deep-seated aversion against a positive role of ethics in business. At the same time it challenges us to reconsider the question about the public relevance of ethics.

Societal Relevance of Ethics

Recently, the standard model of business activity has lost ground. In one of the most frequently cited new papers of experimental economics, Gary E. Bolton and Axel Ockenfels have argued that it is psychologically flawed by inadequate moral assumptions. While it takes for granted that people are guided solely by selfish, particularly pecuniary concerns, in reality people care about other things as well. In accordance with psychologists and sociologists, their research has identified several non-pecuniary motives as important drivers of behavior, - above all concerns for fairness and reciprocity. “Social preference models assume that traders care about their own monetary payoff but that some traders may additionally be concerned with the social impact of their behavior. Reciprocity models conjecture that people tend to be kind in response to kindness and unkind in response to unkindness, while fairness models posit that some individuals may have a preference for equitably sharing the efficiency gains from trade” (Bolton & Ockenfels, 2006). On their account, economic theory underestimates the degree of fairness in business transactions. Instead of reducing business to self-interest and market forces, they see it dominated by the ERC triple principle: equity, reciprocity, and competition.

What is missing in the standard view is the perspective in which we see ourselves not only as role-bearers and functionaries of economic systems but also as social beings and morally concerned citizens with a shared history of beliefs about “the good life.” As social beings, we can only expect to further our self-interest when we recognize the needs of others as well. The necessary rules for effective

cooperation between individual players are not only the result of rational behavior and economic prudence but derive also from the common interest in “the good.”

We should remind ourselves that, as a matter of fact, business never lacks moral background institutions and internalized normative standards, and would be impossible without them. We all depend on them and usually take for granted that we can trust each other, that people normally keep their promises, and that they are not without compassion or a sense of justice. The amorality of business may therefore indeed be a myth (DeGeorge, 1993) that is still characteristic of certain types of economic theory but not of business culture in general, despite all the scandals and widespread moral shortcomings of individuals. Thus a truly amoral economic system, should it be feasible at all, would have to be parasitic on the embedded ethical norms the average citizen could normally be expected to adhere to. It is like truth-telling and lying: A lie can only do the trick when people normally tell the truth so that it can take advantage of their truthfulness as a parasite feeds on its healthy host. In conclusion, the business of business is not business but human flourishing, and this cannot be had without ethics.

Ethics and Economic Space

If all this is true, then moral leadership is based on the assumption that business is not exclusively determined by economic and social forces, as these would leave no space for moral decision-making. The economic system as well as its key players depend on, and thus benefit from, the common ethos that they did not generate on their own. Even the autonomy of the economic system is not absolute, contrary to popular perception, and its rules do not have the status of immutable laws of nature. Instead, it is the product of human culture whose further development can be directed in accordance with human needs and the moral vision of the good society.

Business leaders therefore retain sufficient space for responsible acting even within the parameters of economic imperative, i.e. profitability, and its constraining objectivity. Economic rationality is relative to cultural settings and societal preferences, and both the economic and the ethical are interrelated dimensions of human agency. What lacks economic rationality is lacking in justice as well, and what contradicts human justice cannot really be economically rational (Rich, 2006). In other words, business leaders are not simply prisoners of the economic system. They do have a choice.

Ethics as the Heart of Leadership

If ethics does in fact play an important role in society, or if human flourishing is possible only on the basis of internalized moral norms, then business actions – like all other human actions – have a moral dimension that can neither be ignored nor be merely superficially attended to. Thus business leaders must walk the talk and instead of paying lip-service and engaging in some ethical window-dressing, they must genuinely be concerned about ethics.

In the words of Confucius this reads as follows: “Exemplary persons (junzi) first accomplish what they are going to say, and only then say it” (Ames & Rosemont, 2:13). They would also feel “shame if their words were better than their deeds” (Ames & Rosemont, 14: 27). This is echoed in modern companies. In the BASF statement of Vision, Values, and Principles we read: “We act in accordance with our words and Values. We comply with the laws and respect the good business practices of the countries in which we operate.” Needless to say, the test case for such statements has come when profit and ethics clash, or rather seem to clash, and in the mind of the average manager and business leader, this is regarded as the standard

situation. It is then tempting for ethics consultants to prove, or at least try to prove that ethics in fact pays and that this should be a sufficient reason to behave ethically even in difficult situations. While such a strategy of selling ethics as a means for greater profit may be psychologically advisable so as to persuade doubting and reluctant business leaders to do what would be morally required of them, we should be mindful that ethics is not for sale and must not be traded off against profit. We may manoeuvre as long as we like, in the end it will be decisive whether or not we believe in such a simple truth that former Bosch CEO Hans Merkle summarized in one sentence: “There are certain things an honest person simply does not do – period.”

Obviously, the coincidence of ethics and good business on the one hand and the reasons for behaving ethically on the other are two quite different concerns. To argue that ethics will “enhance the bottom line” offers little more than “an easy, prudentially acceptable, attractive, and enticing reason for business to be ethical” (Cohen, 1999, p. 15). It ignores, however, the fact that every one of us, including business leaders, stands under the moral obligation. The ethical imperative demands that one does first what is good and right and just – and looks for personal gain later.

There is a long tradition in moral philosophy East and West arguing that ethics is never only a means of profit or well-being but an integral and most fundamental component of what we call the good life. When the ancient Chinese philosopher Mencius went to see King Hui of Liang and the latter expected him to “profit” his state, Mencius replied: “Your Majesty, what is the point of mentioning the word ‘profit’? All that matters is that there should be benevolence and righteousness. If Your Majesty says, ‘How can I profit my state?’ and the Counselors say, ‘How can I profit my family?’ and the Gentlemen and Commoners say, ‘How can I profit my person?’ then those above and below will be trying to profit at the expense of one another and the state will be imperiled (...) if profit is put before righteousness, there is no satisfaction short of total usurpation” (Mencius, 1984, 1A:1).

Again, this typical statement from the Confucian tradition is not as “ancient” as it may at first appear: Leadership consultant Peter Koestenbaum recalls a business leader who came across his true self: “I am the top executive in a very large organization and I live with a deep conflict. There is a fundamental ‘bad’ in business, a pervasive cancer. Business lives in a cutthroat, ruthless, dishonest atmosphere. You do what it takes and care nothing about morality. You are not true to your word. In the end, you cheat, deceive, and lie. Eventually, even the most determined among us must contract this disease. This presents me with a fundamental dilemma: Can you win being ‘good’?” And he states in his own words what I call the priority of ethics: “I do not want to take on the characteristics that disturb me in some of my colleagues” (Koestenbaum, 2002, p. 127).

Obviously, the moral imperative cannot be ignored indefinitely. There is a moral self in each of us, which proves that ethics defines our very humanity. The vision we hold of the “good” life in the emphatic sense of the term gives priority to moral principles and values that certainly include reciprocal relationships of justice, trust, sympathy, compassion, and care. If we need another warning about the unpleasant alternatives, Thomas Hobbes is a good witness. He reminds us very clearly that the options we have for individual and social life outside moral norms are either the severe restriction of human freedom through an over-powering government that alone can secure collective survival, or – the war of all against all in which life will be “solitary, poor, nasty, brutish, and short” (Hobbes, 1981, p. 186).

TWO MAJOR FACTORS OF MORAL LEADERSHIP

Moral Leadership, Character, and Authenticity

If we now look a little more closely at the most important characteristics and practical requirements of moral leadership, we will quickly notice that they have an individual and an organizational dimension. For Bill George, former chairman and CEO of Medtronic, the world's leading medical technology company, the various qualities of a moral leader can be summarized in one word: authenticity. It is the "most important characteristics one has to have to be a leader." It stands for moral commitment to a purpose or a mission: Authentic leaders "are people who live by their values every day and who know the true north of their moral compass." "Without a moral compass, any leader can wind up like the executives who are facing possible prison sentences today because they lacked a sense of right and wrong"(George, 2003, p. 20).

Not everyone, however, agrees. Rainer Niermeyer, a psychologist and Kienbaum Management Consultant, has argued that in today's business environment of lean management, shareholder value, and fierce competition, authenticity is the best recipe for self-destruction. In his view, it is not the quality of authenticity that is required of business leaders, but the ability to convincingly play any role, including the role of the authentic leader. Authentic leaders are simply incapable of responding to ever changing business environments with the appropriate role. His prudential imperative is therefore: grasp the expectations of your business environment and perform the role in which you can answer them best.

I submit to disagree. If it is true that amoral business is a myth, business leadership has an indispensable moral dimension that must not be ignored in daily operations and strategic decisions. Leaders without a moral backbone who change roles as fast as they change their clothes will quickly lose trust and will be seen as people who lack sincerity and honesty. When business consultants James M. Kouzes and Barry Z. Posner asked in a survey of thousands of managers what they wanted in their leaders, honesty came out on top (87%). The authors concluded: "Honesty is absolutely essential to leadership. After all, if we are willing to follow someone, whether it be into battle or into the boardroom, we first want to assure ourselves that the person is worthy of our trust. We want to know that he or she is being truthful, ethical, and principled. We want to be fully confident in the integrity of our leaders" (Kouzes & Posner, 1993, p. 255).

It is universally agreed that a good reputation is one of the most important business assets. Good reputation, however, must be earned through a proven commitment to honesty and sincerity, – and that is what gives a leader his or her authenticity. Unfortunately, the authentic commitment to moral values is one of the earliest casualties when the going gets rough and the morally tough are no longer going. This has as much to do with human psychology as with the basic function of business: business is no charity, but looks for profit as the well-deserved reward for all the troubles that come with it in the first place. In Milton Friedman's memorable phrase: "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits." Yet he adds a phrase that is frequently ignored: "to increase its profits – so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud" (Friedman, 1962, p.133). As we have seen, those rules of the game are not and cannot be exclusively defined by business. Most obviously, they are derived from the law and grounded in common morality.

The line that separates the genuine desire for profit from greed is, however, rather thin. From the

perspective of self-interest as sole motivation in business, the temptation is nearly overwhelming to do whatever it takes to increase profit. Critics have argued that the current financial crisis has one of its major causes in instruments of remuneration for top executives that link salaries to short-term increases in company value and encourage risky or even irresponsible business operations through attractive bonuses and share options. It is the carrot-approach without the stick that fuels greed and ignores accountability. Economist and Nobel laureate Myron Scholes has therefore suggested a radical change in the remuneration system, which should exclusively be tied to long-term business success.

While this may prevent some irresponsible operations motivated by greed, moral leadership requires more. Most fundamental is what may be called moral sensibility, a sense for right and wrong, and a competence of signaling morally relevant elements in business situations. Moral leaders will also need to develop a competence for moral reasoning and the ability to argue convincingly on moral grounds. This competence is of particular importance in today's media society and communication age where various groups challenge not only individual business operations but the capitalist free-market society as a whole. Business leaders should not shy away from taking part in the debate about social values and market systems and be capable of persuasively explaining strategic decisions to an ethically doubtful public.

Moral Leadership and Organizational Structure

Moral leadership, however, is not restricted to individuals only, but includes business organizations and corporations as well. The best qualities of moral leadership are useless unless they are embedded in a supportive company structure. That is to say, moral leadership not only interacts with internal environments, corporate cultures, and hierarchical structures, it also influences their development.

While leaders may be the most visible representatives of an enterprise, companies, particularly corporations, are themselves moral agents with their own sets of values and objectives. CEOs come and go, while companies are usually there for the long term. Corporations are moral persons on equal footing with natural persons with all the privileges, rights, and duties moral persons normally have. In France and the UK, companies and not only individuals can be sued and brought before the courts. In Germany, in the wake of recent scandals, calls for a criminal law for corporations have become louder. The head of the European Anti-Fraud Office (OLAF), Franz-Hermann Brüner, proposed to blacklist corrupt companies and to temporarily exclude them from applying for new contracts.

The public too expects companies to be committed to moral standards so as to earn the moral license to operate. Organizational ethics of leadership must therefore be seen as an operational factor and not merely as an expense or cost factor. Internally, a variety of company-wide mechanisms have become available that seek to bring moral leadership to bear. They include codes of ethics, mission or core value statements, ethical training programs and reporting channels for ethical grievances (ethics office).

Thus ethical principles help define the corporate mission, determine obligations to various constituencies, and set guidelines for the organization's policies and practices. While in some cases unethical behavior of managers may have its root causes in character flaws, most often in greed and selfishness, in other instances it is facilitated by a lack of guidelines or by conflicting guidelines. Surveys indicate that many ethics violations by mid-level managers signal in fact conflicts of loyalty resulting from their leaders' inconclusive, ambiguous, or outright misleading value statements and personal behavior. Harvard business ethicist Lynn Sharp Paine recalls how she once met a businessman on a plane who told

her frankly that his job was to be “a liar”: After his company had been bought by a large global enterprise his first truthful report as regional manager was received with such hostile response “that he never again dared to tell the truth.” Since then he regularly fabricated reports for headquarters (Sharp Paine, 2003, p. 40).

It is easy to condemn this manager for false reporting and dishonesty. Yet, the company’s leadership failed even more severely by encouraging a climate of untruthfulness and not defining clear and unambiguous values. Its insensitivity to the humiliating treatment of its employees produced an unethical environment that would undermine not only its reputation but also its profitability.

Morally committed leaders will therefore not only define their companies’ values and principles, they will also pay close attention to value ambiguities. They will take measures to assure the development of moral sensibility and morally sound judgment in their subordinates and throughout the company. Through exemplary behavior, compliance standards, and ethics training of employees, they will see to it that the moral point of view becomes an integral part of company performance and strategy.

A written code enables an organization to clarify standards that may otherwise be vague expectations left to individual interpretation. Where there is disagreement, codes can achieve a certain degree of consensus. Codes are also effective means to disseminate easily understandable rules and principles to all employees, including top-down from leaders and management to front-line employees. A code that is enforceable and enforced in an organization provides employees with a tool for resisting pressures to perform unethical or illegal actions. Thus it will encourage as well as protect employees to do what is right.

BASF’s statement of their Vision, Values, and Principles is just one such example; it stands in glaring contrast to companies that pressure their employees to report only what the top wants to hear. Among the key values, BASF lists mutual respect and integrity. The principles that translate the values into action-guiding statements include: “We involve our employees in work and decision processes in a timely manner through open communication and information sharing not hindered by hierarchical and organizational boundaries.” “Every executive is expected to be a role model and to set an appropriate example in accordance with our Vision and Values. We abstain

- from any practice that is illegal
- from any practice that violates fair trade” (BASF, 2004).

There are many ways how moral leaders can tie the strategic interests of their companies to common morality. Yet above all, they must recognize the fundamental importance of issues of human rights, global justice, and environmental sustainability. One possibility is the adoption of global codes that apply the moral point of view to all areas of business activities. They include codes of corporate responsibility as well as international standards concerning labor practices, corruption, and the environment. Examples are: The UN Global Compact, (which since its official launch on 26 July 2000 has grown to more than 5600 participants, including over 4300 businesses in 120 countries around the world), the Global Reporting Initiative GRI); the UN Convention Against Corruption (UNCAC); Transparency International.

Corporate Ethics and Compliance

The best codes, however, are not worth the paper on which they are printed if business leaders do not ensure that they are adhered to, especially when times are rough – and that means: always. In the final

analysis, it is individuals who will determine the ethical quality of business conduct. Many companies still seem to regard their codes as what business ethicist Daryl Koehn has called “good times” codes of ethics that presuppose “that everything is going well with the core business, but doesn’t address what happens when the core business is under attack”(Millman, 2002, p. 17).

Once upon a time there was a famous accounting firm by the name of Anderson, whose biggest client was Enron. Both had codes of ethics, and their executives presented them at every occasion. They even gave public talks on their companies’ mission and values and talked as if they did indeed believe in them. But as it turned out, they never cared to bother about values or codes. When Enron’s voluminous code of ethics got in the way of doing what management wanted done, its board was easily persuaded to lay aside certain provisions - most notoriously, the conflict-of-interest provision. And when everything collapsed, Anderson shredded all its accounting documents, and the large numbers of unused ethics codes were eventually auctioned off at Ebay. This final act was in fact the last in a long series of continuous betrayal of company values. Over a number of years, Anderson sold its soul and with it its reputation to its clients. The firm gradually compromised their values more and more, just to make money. As one observer noticed, what looks at first glance as a giant step in destroying documents was to them just another step in sacrificing values for greed (George, 2003, p. 75).

What we can learn from this is that no code can ever work unless its operation is embedded in a company’s culture, and accepted by all concerned, particularly the leaders at the top. Yet the development of a corporate culture takes time as it involves habits of mind and action that are only produced through the continued, sincere upholding of company values and principles and the encouragement to abide by them. Eventually, this will set parameters of good practice the individual employee and manager can hardly ignore. Codes of ethics can only be useful when they are clearly linked to the daily operations, and this can be achieved most effectively by building adherence to standards into management systems, into performance evaluation, compensation, audit, and control.

Siemens: The Costs of Neglecting Moral Leadership

What is at stake when business leaders ignore good ethical practice and companies lose their ethical reputation can be illustrated by one of the latest scandals. Siemens was recently embroiled in a huge corruption scandal that has severely shaken the confidence of a once proud and self-conscious Siemens “community,” tarnished its reputation, and caused substantial financial losses. Like most large corporations, Siemens had a code of ethics and a code of business conduct, was an early subscriber (2003) to the ten principles of the UN Global Compact, and proudly proclaimed to place high priority on principles of corporate responsibility. Its Code of Ethics for Financial Matters required of every employee, among others, to:

- (1) act with honesty and integrity and avoid actual and apparent conflicts of interest in personal and professional relationships;
- (6) promote proactively ethical behavior as a responsible partner among colleagues and subordinates;
- (7) comply with all applicable laws, guidelines and regulations;

Its Business Conduct Guidelines stated unambiguously:

A3. We are open and honest and stand by our responsibility. We are reliable partners who make no promises we cannot keep.

A4. Every manager must earn their respect by exemplary personal behavior, performance, openness, and social competence. He/she shall set clear, ambitious, and realistic goals, lead by trust and confidence and leave the employees as much individual responsibility and leeway as possible.

In section B2 Offering and Granting Advantages, the guidelines read: Client gifts to business partner employees must be selected so as to avoid any appearance of bad faith or impropriety in the mind of the recipient. No employee may directly or indirectly offer or grant unjustified advantages to others in connection with business dealings, neither in monetary form nor as some other advantage. Gifts must not be made to public officials or other civil servants. Its value statement listed responsibility above all else and defined it as being committed to ethical actions.

In spite of all this, in his Foreword to the company's 2007 Corporate Responsibility Report the new Siemens President and CEO, Peter Löscher, had to admit: "Siemens – as a global enterprise – also has an impact on social developments, the single most important expectation is that our conduct be flawless from an ethical standpoint. The fact that our company made mistakes here in the past is a painful realization" (Siemens, 2008). What went wrong in the company that was once considered a role model for corporate Germany?

In May 2007, two former mid-level managers – Andreas Kley, a former finance chief at Siemens's power-generation unit, and Horst Vigener, a consultant – were convicted of paying about 6 million Euros in bribes from 1999 to 2002 to help Siemens win gas-turbine supply contracts with Enel, a state-owned Italian energy company. The contracts were valued at approximately 450 million Euros (\$609 million). The managers explained their actions, which they knew were illegal, with last-minute demands from their Italian contractor. They believed they acted "in the interest of the company," since only by paying the money could Siemens secure the contract and enter the Italian market. They did not benefit personally from the deal. The court convicted them of bribery and ordered the company to pay a fine of 38 million Euros (\$51.4 million).

The Darmstadt trial was the first verdict in a widening corruption scandal that engulfed the engineering and electronics giant with more than 400 000 employees worldwide and revenue of 72.4 billion Euros in the fiscal year 2007. In the meantime, prosecutors around the world formally launched bribery investigations against Siemens. They include the US Justice Department and the US Securities and Exchange Commission as well as prosecutors in Hungary, Indonesia, Norway, Israel, Italy, and Russia. In China, Siemens is (or was) under investigation in a number of jurisdictions including Guangdong, Jilin, Xian, Wuxi, Shanghai, Ting Hu, Shandong, Hunan, and Guiyang.

The case against a former Siemens manager who was recently convicted by a court in Munich of several counts of breach of trust revealed not only the massive scale of corruption in the company but also a lack of moral leadership at the top. On 27 July 2008 and after a two-month trial, Reinhard Siekaczek, a former manager at the ICN fixed-line telephone network division, received a two-year suspended sentence and a 108,000 Euros fine. He got off relatively lightly, since his comprehensive cooperation with the prosecution helped reveal the complex and highly sophisticated corruption and bribery mechanisms that had gradually developed in Siemens for at least a period of six years, from 2000 to 2006. The prosecution could prove that a system of bribery was installed, and that Siekaczek had set up slush funds and "used an impenetrable system of sham contracts, which didn't allow any control once Siemens money was paid out" (Matussek, 2008). Siemens has acknowledged that a total of 1.3 billion Euros of "unclear payments" were

made during the period.

Yet the most damaging allegations were leveled against the Siemens leadership. The defendant claimed that the complex network of shell corporations he used to siphon off company money was installed with full knowledge of the whole sectoral management. Everyone knew that “commissions” were to secure orders, although this matter was handled “very discreetly” with only a very small circle of people in the know. Siekaczek testified that his superiors had even told him to create a new payment system after paying bribes abroad became a criminal offense in Germany in 1998. He said at a meeting with four managers in 2002 he was given the job of organizing the payments. “It was naturally clear to all that this does not correspond to the law,” he said, adding that their attitude was: “We’re not doing it for ourselves, but for the firm” (Marquart, 2008).

Once the scandal broke, all that Siemens could do to minimize the disastrous fall-out was to admit its wrongdoings, replace its tarnished top leadership, and aggressively attack the cancer of corruption top-down through a variety of measures. One of the first steps taken by the new CEO, who came from outside the company, was the declaration that anti-corruption measures are now a priority for the senior management. This was backed up by the appointment of a Chief Compliance Officer (19 September 2007) and by the institution of a new directorate “Law and Compliance” on the Siemens Managing Board. In fiscal 2007, Siemens imposed personnel sanctions on a total of around 500 employees for violation of external regulations or internal policies. The contracts of thirty percent of those employees were terminated and eight percent were punished with salary deductions. The rest received either a reprimand or a warning.

Furthermore, Siemens consolidated all its internal anti-corruption regulations within a single, easy-to-use source, the Siemens Compliance Guide Anti-Corruption, and distributed it to every employee throughout the company. It set up a Compliance Help Desk with an “Ask us” function as central contact point for employees with questions related to matters of compliance and corruption. The second function of the Compliance Help Desk is a “Tell us” function that gives employees and all external stakeholders the opportunity to report any indications of possible violations of the Business Conduct Guidelines, on the assurance that reports are neither traced nor registered. Siemens also stepped up its anti-corruption and ethics training program and claims that between February and October 2007, 1,400 managerial employees enrolled and a total of 36,000 employees completed a web-based training program on the specific rules and regulations to be observed in money transfers, accounting, and the handling of gifts; it expects that up to 100,000 employees will complete this training program. Siemens appointed an independent compliance consultant who will advise the Board of Directors and regularly report to the Chief Compliance Officer. In the first two quarters of 2008, Siemens paid 302 million Euros for external compliance consultants and cleaning-up measures. In the meantime, Siemens has confirmed to press charges against and seek damages from eleven former top managers, including former chairman of the supervisory board, Heinrich von Pierer, and former CEO Klaus Kleinfeld.

CONCLUSION

Andreas Pohlman, the new Siemens Chief Compliance Officer, summarized the task ahead as follows: “Integrity management requires the acceptance of responsibility at all levels of the company. This is not just a matter of being aware of and complying with rules and guidelines. Effective integrity management goes much further: it involves a credible dialogue based on trust, with corresponding communication

across all hierarchical levels. Only then can the necessary change process be initiated and acceptance established among the workforce” (Pohlmann, 2008).

In the end, it is ethics that counts and it is ethics that sets the benchmark for true excellence and success in business as in personal life. Only when it has been understood and accepted that moral leadership is a business asset and a fundamental company value, the market economy can be sustainable and financial systems of benefit to all.

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