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## Virtue: a foundation for organizational success

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Virtue: A Foundation for Organizational Success

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### Abstract

Virtue ethics, rooted in Aristotelian philosophy, is reviewed within the context of published literature and in the consequence of recent corporate scandals. It employs a normative approach in focusing on the former Enron Corporation as an example of an organization that operated without virtue ethics. Development of virtue ethics in today's world is based on the confluence of ethical theories, including utilitarian, Kantian, common morality, feminism and ethics of care. The perspectives and prescriptions of scholars and practitioners are distilled and offered as they relate to the role of leadership in supporting virtue ethical behaviors and values. Recommendations drawn from this review include: leadership must ground the organization in virtue language; selection and promotion processes should reflect inclusion of competencies of virtuous behavior, such as, fairness, honesty, and trustworthiness; individuals who do not conform to virtuous behaviors should be corrected as soon as possible; and the corporate structure should include checks and balances to keep the honest members honest and to weed out those who are not competent in virtuous behavior.

## Virtue as a Common Language of Integrity

*“творить добро” “la chose à faire” “es lo que hay que hacer” “sich korrekt verhalten” Roughly translated to “do the right thing” or “do good”*

The discussion of business ethics is not only a staple topic around the corporate water cooler it' is an ever present focus of society. The tainted ethical events of Enron, Worldcom, Qwest, Global Crossing, Parmalat, Barings Bank, Systembolaget, Skandia, Société Générale, and the Allied Irish Bank have heightened the awareness of civil society, practitioners and academicians to the effect of corporate scandals. Blame for these lapses in both judgment and action has been pointed to a variety of sources, including the failure to establish appropriate organizational checks and balances, ineffective corporate ethics training, the profit maximizing emphasis of western Master of Business Administration (MBA) programs in many countries, and an absence of moral foundation (Beggs, & Dean, 2006; Clarke, 2007; Dunkelberg & Jessup, 2001; Knights & O'Leary, 2006; Mintzberg, 2004; Svensson & Wood, 2008).

The purpose of this paper is to focus on the foundational moral aspects of ethics from a predominantly normative view, and suggest a model of virtue ethics perspective that may be used in organizational governance, incorporating both scholarly and practitioner evidence. Virtue-based theories focus on who individuals are and assume that virtues and morals abilities can be acquired (Northouse, 2004). This model of the application of virtue in organizations (see Appendix A) is informed by a number of philosophies and theories; however, it is limited in scope and therefore missing the arguments of many scholars who are associated with virtue writings from the ancients to the more modern, such as Socrates, Plato, Hegel, and Freeman, respectively. While there are many cases that could be used to illustrate this model (such as those listed in the

opening sentences of this review), the case of Enron will be used as a frame due to both its pervading recognition in the media and that many of the lessons are eligible for use as an assessment tool by leaders. The ethical constructs used in this paper, the Utilitarian, Kantian, morality theories, rights, and the ethics of care, although not exhaustive, were selected because they are frequently cited in both business ethics and leadership literature. The Enron example will be subsequently used to show how the assumptions and constructs of these philosophical schools of thought can not only make virtue ethics operative, but also pose potential challenges in using the construct and each philosophy's value to the organization.

### *Utilitarian*

One of the ways to evaluate the degree to which virtue ethics may be applied to the real world of organizations is to examine it from a utilitarian perspective. Drawn from the economics discipline it seeks to answer the question of marginal utility of use and responds to the perennial business question of how this supports the business case for using it. Utilitarianism is a popular frame for evaluating normative ethics because it assumes that maximizing net expectable utility for all parties affected by a decision or action is effective for all parties. Expectable utility is a measure of overall welfare for the stakeholders. This theory is made operable through the weighing of costs and benefits of possible business outcomes and the decisions formed that take into account the interests of all stakeholders (Morrison, 2001). However, there are limitations to the utilitarian perspective. For example, many individuals seem to lack the ability to calculate how to do 'good' or 'the effect of the social good to society'. Moreover, actions may be based on unrestrained utility of one or more or a conspiracy of stakeholders and can lead to

conflict with the social good of overall society. In fact the Enron scandal is a case example of how it can result in a vicious cycle. When this happens society may impose enforcement, legislation, regulation or other remedies to balance individual stakeholder utility (Pounds, 2006). The value of virtue ethics to the organization system is through the application of virtue ethics in such a way that it yields a virtuous cycle as opposed to a vicious one (Senge, 2006).

### *Kantian*

Immanuel Kant's theory purports that persons should be treated as ends and never purely as means to the ends of others. "According to Kant, nonrational things are moved to act by gravity or their own instincts, but we, rational beings, *decide* how to act", (Altman, 2007, p 254). This is problematic from a corporate perspective because it postulates that business people can be judged but not the business and is counter-intuitive to systems thinking which holds that all elements of a system are held in balance. Since Kant's theory expects individuals to make the right decisions for the right reasons (Altman, 2007) those who challenge Kant regularly do so on the aspects of emotion and relationships. Kant, for example, has no place for moral emotions or sentiments and little to say on virtues. Kant believes that when conflict arises between obligation and motivation, obligation will prevail, notwithstanding that this completely ignores the instance of special relationships, or behaviors that are supported by unethical orientations such as greed.

Even in the face of these seeming contradictions, Bowie (1998; 1999; 2000), argues that breaking down Kant's writings into pieces reveals a theory that is fully applicable to modern leadership and the emphasis on the individual. Its value to

organizations is that it focuses responsibility for virtue on the individual and focuses on the individual fulfilling her/his obligations. If the individual acts out of concern for his/her obligations, with the best interests of all parties or stakeholders used as the rubric, and if this is reflected at all levels of the organization then it should result in a virtuous organization. However, “a business has neither inclinations nor the capacity to reason, so it lacks the conditions necessary for constraint by moral law... Although a business can act, its actions can only be judged by particular business people” (Altman, 2007, p 253). If these people consist of a moral makeup that is less than desirable for society as a whole, such as greed, then the results may mirror those seen in organizations such as Enron.

### *Rights*

Rights theorists argue that human rights are moral rights that apply to all persons in all nations; they are without borders. Determining just what these inalienable rights are is the subject of great philosophical and application debate. Brenkert (1992) offers that there are three assumptions that must be met for a right to become international: (a) the right must protect something of great importance, (b) the right must be subject to substantial and recurrent threats, (c) the obligations imposed by the right must satisfy a fairness-affordability test. There have been several delineations of a global document of human rights, including the United Nations Universal Declarations of Human Rights which identifies the following: (a) everyone has the right to life, liberty, and security of person, (b) no one shall be held in slavery or servitude, (c) no one shall be subjected to torture or cruel, inhuman or degrading treatment or punishment, and (d) everyone has the right to join trade unions for the protection of his or her interests. These declarations

apply to business ethics in many ways including impacting employment practices and packages, negotiations, production processes, and privacy issues (Coleman, 2006; Dorsey, 2005).

The difficulty with such declarations is their enforcement. For example the United Nations Child Rights convention was drafted in 1989 and ratified by 192 countries by 1992, the most rapid ratification ever of an international treaty (Verhellen, 2000). However if one assesses whether children are better off today as a result of this legally enforceable document one would have to conclude that they are not. Many of the same abridgements of rights that prompted the declaration still exist even though countries are committed by the Convention to enforce them. Notwithstanding these challenges, the value of rights approaches appears to be evident and consistent with virtue ethics. The value to a rights based approach to an organization such as Enron is evident. Were the organization to adopt these rights as guiding tenets, the result would be drastically different from what has occurred. The Enron experience documented the effect of the absence of rights. Applying rights theory to Enron could have provided an environment that supported virtue ethics as a guide to ethical governance.

#### *Feminism and the Ethics of Care*

Feminist theory assumes people are essentially relational, not individualistic and that the self has relationships that cannot be separated from its existence; there is no 'I' without 'you'. This construct is made operative through responsibilities that emphasize the notion of caring. Hofstede (1980) in his seminal study of cultural dimensions developed a concept of the femininity – masculinity as one of the cultural continuum evident in all cultures. He posed the behaviors of these two ends of the continuum as:

Feminine Cultures	Masculine Cultures
<ul style="list-style-type: none"> <li>• cooperation,</li> <li>• friendly ambience,</li> <li>• gender equity,</li> <li>• nurturing</li> </ul>	<ul style="list-style-type: none"> <li>• recognition,</li> <li>• advancement</li> <li>• money and material possessions</li> <li>• aggressive approach</li> </ul>

While this continuum appears to exist in most cultures with the designated point being more feminine or masculine, in a business setting this model does not always translate well. For example, cultures such as the US may favor a more masculine culture while the Scandinavian countries favor a more feminine approach. Interesting to note is a comparison of countries and their ranking on the masculine-femininity continuum with the rankings of these countries on the corruption and health of countries. In each case feminine countries are less corrupt and generally healthier (DiRienzo, Das, Cort & Bainbridge, 2007; Hofstede, 1997). Its value to virtue ethics in an organization is that by using this approach with respect to customer and employee relationships, it appears to work and can build trust and loyalty (Burton & Dunn, 1996). In the instance of Enron, masculine qualities appeared to be more prevalent emphasizing profit maximization among the board of directors and communicated directly and indirectly down to employees, creating a vicious cycle that ultimately undid the organization.

### *Common Morality*

The theory of common morality is predicated on the belief and assumptions that all people share a base of common norms or rules, somewhat akin to the United Nations statements of rights. Business ethics, as it relates to these common morals is made operative through an application of these norms. These common norms or rules derive

from the five basic harms that are the foundation for the common system (Stratton-Lake, 2005): death, pain, disability, loss of freedom, and loss of pleasure. From these five harms, ten moral rules have been developed, five concern inflicting the harms directly (do not kill, do not cause pain, do not disable, do not deprive of freedom, do not deprive of pleasure) and five concern prohibiting actions that cause these harms indirectly (keep your promises, do not cheat, obey the law, do not deceive, do your duty). At face value these rules or norms appear easily enforceable; however, the application of these basic moral norms is complicated when you try to balance them in their cultural context (Richardson, 2000). For example, what is lawful in one area may not be so in another. In addition, Geert (2004) distinguishes the moral duties of non-professionals versus professionals, placing higher moral requirements for professionals. The value of such norms in creating a virtue ethics environment is evident. Were an organization to follow them it would be an organization governed by virtue ethics. At Enron the harms of the infliction of pain and the restriction of pleasure were evidenced indirectly by the loss of jobs and stock value. The violations of lying, cheating, and deceiving were more blatant.

None of these ethical theories operate in a vacuum, instead they appear to grow like a vine, rooted in many of the same basic language but taking on their own unique shape and orientation. For example, the common morality theory draws heavily from three of the Kantian categorical imperatives: (a) act as though the maxim of your action were by your will to become a universal law of nature, or more simply stated, do unto others, (b) act so that you treat humanity whether in your own person or that of another, always as an end and never as a means only, or otherwise stated as the respect for persons principle, (c) act as if your maxims should serve at the same time as universal law, or the

law of fairness in human relations (Reynolds & Bowie, 2004). Virtue ethics is a strong example of a theory that is rooted in Aristotelian philosophy but has aspects of Kantian, utilitarianism, rights, and feminism laced throughout.

### *Virtue Ethics*

A virtue is a disposition of character to choose or reject actions because they are of a certain ethically relevant kind. A person of ethical character regularly and consistently exhibits the character traits in compliance with the associated principals calling for honest, fair, reliable, and trustworthy commitment to others (Chun, 2005). Virtue ethics is rooted in Aristotelian philosophy (Zinaich, 2004). It is sometimes called aretaic, from the Greek *arête* translated as 'excellence or virtue' (Knights & O'Leary, 2006). It denies that making moral decisions is a matter of calculation or principal- based duties, but instead looks to motivate aspirational values and seeks to answer the question what kind of organization should we be (Chun, 2005)? Virtue ethics has traditionally been regarded as complementary or laissez-faire ethics in solving business problems. However, in light of the recent global organizational ethical challenges experienced, a more active application of virtue is called for; moving what should be to what is.

According to Chun (2005), Aristotle distinguishes two sorts of virtues: the intellectual virtues of wisdom, referring to conduct that optimally deploys reason's apprehensive powers, and the moral virtues that are not so much learned as they are acquired through constant practice until they become second nature. Chun further identifies thirteen moral virtues of which seven relate more directly to business: courage, self-control, generosity, magnificence, magnanimity, sociability, and justice. Shanahan and Hyman (2003,) have looked beyond the Aristotelian characteristics and identified the

following business applied virtues: autonomy, caring, caution, confidentiality, compassion, duty, empathy, friendliness, honesty, honor, loyalty, sensitivity, tolerance, trustworthiness, wisdom, and wittiness. Bragues (2008) turned to the writings of Benjamin Franklin, “attempting to connect virtuous character with enlightened self-interest” (p. 373) and posited that the following virtues have application to modern organizations: temperance, silence, order, resolution, frugality, industry, sincerity, justice, moderation, cleanliness, tranquility, chastity, and humility.

A discussion of virtue ethics often includes the writings of Nietzsche, which have been argued as inspired by Aristotle’s philosophy (Daigle, 2006, Rivers, 2004). Nietzsche’s ethics has been called an ethics of virtue, where the noble or virtuous person is characterized by generosity and magnanimity and lives beyond resentment and feelings of remorse and guilt (Schoeman, 2007). According to Daigle (2006), Nietzsche refrained from a list of virtues but instead proposed that “each occurrence of a virtue is different in kind from all others. There is really no virtue other than the peculiar virtue of each man”, (p 10). Schoeman (2007) further states that Nietzsche “resists the foundationalist claim that values and virtues have a timeless essence, legislated once and for all by some supra-historical, transcendent power”, (p 29). This individualized approach to virtue is difficult, if not impossible, to apply to an organizational system, given that other than a sole proprietorship, organizations are groups, or herds, as referred to by Schoeman. Instead, virtue ethics as seen through a lens of Nietzsche’s writings, requires that individuals monitor themselves, examining the characterized “tension between the different ‘identifies’ and ‘instincts’ that one harbours in oneself”, (p 20).

Humility as a virtue has been examined by many scholars. For example, the Kantian perspective posits virtue as a meta-attitude which constitutes the moral agent's proper perspective on himself as a dependent and corrupt but capable and dignified rational agent (Bird, 2000); whereas, Nietzsche wrote of humility as a weakness, a false virtue which concealed the frailties and hidden crookedness in its holder. Although frequently argued by ethicists, humility is often overlooked in the business arena. There are notable exceptions. An early president of the American Management Association, James Hayes (1978), termed humility as the silent virtue. Hayes recognized the importance of humility to organizational harmony and he underscored the value of a leader's ability to laugh at their foibles. This ability to laugh at oneself can be viewed as an extension of the virtues listed above of wisdom and wittiness. A more recent example is found in Collins' (2001) *Good to Great*, where he searched for factors that helped firms move from good to exceptional performance. One unexpected finding of CEO greatness was humbleness or humility. In contrast the opposite characteristics of arrogance, narcissism, egoism, pridefulness, selfishness, while applied for short-term gain are a threat to a firm in the long-term. Collins describes individuals with humbleness as 'Level 5' leaders who have a paradoxical combination of humility and fierce resolve, exhibiting ambition for the organization as opposed to the self. Neville Bain, the chairman of the UK Institute of Directors, lists among the skills listed for effective directors, the courage to stand up for what they believe and the humility to invite and accept constructive challenge (Pert, 2007). Not surprisingly, the word arrogance, in opposition to humility, has been often associated with individuals, exemplified by

Skilling, the former CEO of Enron, whose arrogance put the self before the firm and resulted in its downfall (Yeung, 2006).

Vera and Rodriques-Lopez (2004) found, in an open-ended interview study of top executives and middle managers, thirteen characteristics of humble leaders: is not narcissistic and repels adulation, has a genuine desire to serve, respects others, acknowledges his or her own limitations and mistakes and attempts to correct them, shares honors and recognition with collaborators, accepts success with simplicity, is open to new paradigms, eager to learn from others, accepts failure with pragmatism, asks for advice, develops others, avoids self complacency, and is frugal. One common theme found in this list is that these leaders appear to not only recognize their weaknesses but take the next step toward a correction. This self corrective behavior is a tenant of Greenleaf's servant leadership, which calls for leadership to lead by serving and to take responsibility for their actions (Abshire, 2007).

*The virtuous company.*

It is beyond the scope of this paper to argue whether a corporation can be virtuous. That argument has been waged in other scholarly papers (Floridi & Sanders, 2004; Schudt, 2000). For discussion purposes it is accepted that corporations are sometimes moral agents. As agents a corporation's character consists of its virtues. In support of virtue as a component of a corporation Schudt (2000) questions if there could be a situation where every member of a corporation acts ethically and the corporation as a whole acts unethically? As a response he posits the situation of an ore mine, where every employee behaves according to ethical standards but the net result of the mine is a depletion or degradation of environmental conditions.

The character of the individual, the CEO, is important because they create an environment that enables the organizational values, culture, and performance through motivating employees, value creation, or leadership. The degree to which this results in a virtuous or vicious cycle may be a function of tenure as steward of the organization, whereby, the length of time a person serves as CEO can affect the organization either positively or negatively depending on the character of the CEO. To create virtues, ethical organizations should identify and develop distinctive virtues that are strategically useful and recognized by the market as desirable (Gowri, 2007). While the CEO is important in setting the organizational culture, virtuous organizations can not be made by a few individuals, but instead by the collective efforts of each member. An organization's distinctive virtue characteristics, aligned with ethical values, will allow it to differentiate from others and thereby create competitive advantage (Chun, 2005). Organizations, through authentic leadership and key organizational processes - attraction-selection-attrition, socialization, reward systems, and ethical organizational culture – can enact a living code of ethics, instilling a “positive ethical organization where the right thing to do is the only thing to do”, (Verbos, Gerard, Forshey, Harding, & Miller, 2007, p 17).

*Virtues, integrity, and leadership.*

The study of ethical leadership research has a strong focus on character and is therefore easily applied to virtue ethics. Integrity, a common leadership characteristic, derives from the same Latin root as "Integer" - a sense of "wholeness". A person of integrity, like a whole number, is a whole person, a person somehow undivided. Morrison (2001) describes integrity as a foundational character attribute of global leadership, for without this trait leaders will never generate good will or trust. Knights and O'Leary

(2006) draw from an Aristotelian perspective, stating that a hero (or leader in the organizational context) is not one who merely gains the approval of others because of his or her achievements, but instead, heroism (or leadership) is attributed to those who exercise virtues that sustain a social role or excellence in social practice.

Global leaders have the burden of defining ethical behavior for themselves and the broader organization. Often they define company specific rights that may differ from the national legal rights. For example, transnational organizations may promote women to exercise a very predominant role in some cultures, however, it may be illegal for women to negotiate with men in other countries in which the organizations operate. Globalization can heighten the differences between cultural norms between countries creating added pressure on the leadership of organizations in economically advanced countries to raise the expectations of their developing partners. Leaders can significantly impact, positively or negatively, issues such as employment practices, contract negotiations, and safety guidelines. Perhaps the most pressure to be placed on the leadership may come from within their moral center or compass. Intrinsically motivated individuals with energy, vision, and communication skills will be required to lead the way (Martin, 2002; Morrison, 2001). Enacting or translating this energy to task may be assisted by compliance guidance found by a growing body of sources, including the Foreign Corrupt Practices Act (FCPA) and the Caux Round Table for Business (Curtin, 1996).

According to Whetstone (2003), a manager's moral character (what it is, how it grows, and who shapes it) should be of vital concern to an organization. A virtuous leader must consider her character as it affects the interests of peers, superiors, subordinates,

clients, customers, intimates and strangers. The leader of a virtuous organization must be concerned with personal integrity and the moral development of the community or corporation. In a study of grocery store managers and executives interviews were conducted with the store management, employees, security and public relations staff. Findings indicated that virtue language was a part of the dialogue used to describe excellent managers, exhibited by such phraseology as 'walk the talk', and 'the golden rule'. Of particular note is the comment that 'every store takes on the personality of the store manager' (Whetstone, 2003). This indicates the important role of the manager in the overall character of the organization. If each store emulates the management, then one goal for hiring should be to hire virtuous management or leaders.

*Corporate culture.*

Rockness and Rockness (2002) reviewed corporate ethics breaches and concluded that in almost 100 years of corporate legislation, the success rate of deterring unethical behavior is dismal and insist that culture and embedded ethical values are required to fix questionable financial management and reporting. The former Enron CEO, Skilling, created a corporate culture that pushed limits and constantly increased employee expectations. Some of the aspects of the organizational culture that resulted in the negative consequences included: management's attention lay without exception in profits, exhibiting greed and influence at all costs. Management reaction to crisis included blaming anyone it could; ignoring employee concerns; rewarding self-interest above anything else; hiring those who value money and aggressive behavior; and a willingness to overlook questionable behaviors (Sims & Brinkman, 2003). Skilling believed that greed was the greatest motivator and he was only too happy to feed it. He utilized a

Darwinian approach to employment; those who did not perform would be quickly cut from the herd (Lewchuk, 2005). As an example of the extent to which this lack of virtue ethics permeated the Enron corporation a Northwest US utility won its case against Enron by playing a tape recording of Enron employees joking and laughing about how they were “*screwing*” grandmothers through increased rates to the utility.

Vitell, Nwachukwa and Barnes (1993) extend the cultural work of Hofstede (1980) that distinguishes the masculinity/femininity dimension of cultural environments, suggesting that some cultures are more conducive to unethical conduct than others. Societies that are characterized as masculine encourage individuals, especially males, to be ambitious, competitive and to strive for material success. These factors may contribute significantly to one's engagement in unethical behavior. Sweden, for example, is classified by Hofstede as a feminine culture, whereas the United States and Japan are classified as masculine cultures. Thus, decision-makers in some cultures (i.e., masculine) may not even perceive certain ethical problems because they are not defined by their culture as involving ethics.

Hofstede also delineates the difference between an organization's concern with means to a concern with goals, and a concern for people to a concern for completing the job. When attempting to determine the cultural norms of a society and then matching leader virtue orientation to the culture one must keep in mind that when interpreting people's statements about their values one should distinguish between the cultural specific desirable and the desired.

The failure of organizations to perform according to their own articulated standards of ethical behavior, more commonly known in the vernacular as ‘walk the talk’,

is a common bond across nations and cultures. For example, business executives' ethical judgments have been found to be mediated by individual and cultural ethical ideology (Vitell, Nwachukwa, & Barnes, 1993). Haniffa and Hudaib (2007) compared six Islamic banks on the basis of the information communicated in their annual report with the idea deemed vital to the Islamic ethical business framework. All but one of these banks failed in four of the dimensions: commitments to society, disclosure of corporate vision and mission, contribution to management of charity and benevolent loans, and information regarding top management. In further example, a study of Russian managers found them to be substantially more relativistic than American counterparts when faced with ethical dilemmas such that the former have used situational analysis more heavily in determining the ethics of a decision (McCarthy & Puffer, 2008).

The corporate leader, as a primary steward of the corporate culture must constantly support and develop a virtuous culture, implementing policies and procedures that make it clear that unethical conduct will be detected and the employee, no matter their rank, will be punished. Employees are searching for cues from their leadership as to appropriate behavior. Employees look to both their leader's personal characteristics and the social values embedded within the corporate culture (Dawson, 2005). If, as in the case of Enron, the leadership stretches the rules, then how can these same leaders expect higher moral behavior from their subordinates? Followers just as freely adopt their leader's morally corrupt value scheme as their virtuous one. The moral status of a leader requires attention to the tactics used and the impacts on those who follow as well as those who find themselves in the way (Dunkelberg & Jessup, 2001; McCall, 2002).

The late Peter Drucker alluded to the character of business in general in a statement made in an interview. He offered that there was nothing substantially new about the recent ethics scandals (Zahra, 2003), “the only thing new is that the last boom considerably increased the temptation to fake the books”, (p. 11). Enron’s ‘failure is not an option’ philosophy trickled down to all levels of the organization, creating additional invitations for mismanagement.

In addition to the moral makeup of the leadership the very type of organization may dictate the degree of ease in sculpting a more virtuous culture. For example, financial related institutions, such as Enron, have an inherent bureaucratic need for rules and structure to comply with a myriad of regulations; thereby complicating the promotion of individual ethics. Those organizations with high employee turnover and a casual or part time employment base have more difficulty sustaining a work ethic conducive to ethical behavior. Whereas businesses that thrive on the quality of human relationships, a foundational component of feminist theory, have more opportunity for building a culture that promotes ethical behavior (Dawson, 2005).

*The case of Enron.*

On December 2, 2001, Enron Corporation of Houston, Texas, formerly the seventh largest corporation in the United States, filed the then largest bankruptcy in the history of the United States, and created one of the biggest scandals in accounting. Prior to the filing, Enron lost \$90 billion in shareholder value in 24 days. Enron began in 1985 as the result of the merger of two natural gas companies. Jeff Skilling started his career with Enron in 1989 as a consultant. He rose to the office of the President by the end of 1996. Under his leadership, Enron grew their earnings by expanding their gas operations

business model to both international markets and other commodities. The 2000 California energy crisis brought attention to Enron's role in profit making market strategies and resulted in their subsequent 'run on the bank' as stated by Skilling (Beggs & Dean, 2006; Lewchuk, 2005).

The U. S. Senate Permanent Subcommittee on Investigations reviewed over one million pages of subpoenaed documents and interviewed thirteen members of the Enron Board of Directors. Their findings with respect to the role of the leadership of the Board of Directors can be summarized as the following: failure to safeguard Enron shareholders, high risk accounting, inappropriate conflicts of interest, undisclosed off-the-books accounting, excessive compensation, lack of independence. Enron's issues were so systemic that not only was Enron suspended from governmental contracts (before its demise) but also its managing accounting firm and several other organizations that partnered with Enron (Appendix B).

Based on the evidence, the Subcommittee recommended that publicly traded companies going forward should both strengthen their oversight and strengthen their independence (S. 107-70, 2002). On the other hand, McKendall, DeMarr and Jones-Rikkens (2002), in a study of 108 large corporations, found that ethical compliance programs did not lessen legal violations, offering that compliance programs may in fact serve as window dressing and deflect attention or culpability resulting from legal action.

*Mandating or legislating virtue.*

Implementing the findings of the Subcommittee assumes that compliance, and therefore in effect virtues as exhibited by behaviors, among other aspects, can be mandated. An organization can only be as ethical as the people who own, manage, and

work for it; however, the structure and practices can be more or less inductive to ethics (Beu & Buckley, 2001). As an indirect result of the Enron scandals, heightened awareness has been placed on organizational tools for ethical compliance, including codes of conduct, ethics training, compensation package development and implementation. This awareness comes from both legislative mandate and overall consumer concerns. For example, consumer outrage to corporate scandals led to the Sarbanes-Oxley Act of 2002 which resulted in the strengthening of securities regulations and the tightening of corporate governance (Bragues, 2008). Attention was drawn to the compilation of governing boards and the relationships of directors; relationships that at times can be too close. According to Felo (2001), corporate boards that are composed of directors who serve dual roles, otherwise known as inside directors, may be reluctant to confront managers because of their direct relationships. In addition, gray directors, those who are customers of the firm, may also be reluctant to confront the firm's management team for fear of losing business. In addition, boards that have ethics programs are less likely to have members of the board of their compensation committee.

However, it is offered here that restricting relationships is only one side of compliance. Securing leadership who have a strong moral center and then coupling this virtuous orientation with a strong, clear set of guidelines for appropriate behavior may have better corporate results. In essence, this means keeping the honest leader honest as opposed to morphing the less than honest person into the desired role.

Bork (2003) takes a different perspective of the moral culture argument. He states that when society fails courts intervene in governing social norms. Judicial systems are not designed for cultural and political roles and like organizations are subject to the moral

center of their leadership, in this case, judges; judges who are better at thinking logically and writing precedent than they may be at maintaining democratic rule and who may apply no law other than their own will that is guided by their personal moral integrity.

*Measuring virtue.*

Caza, Barker and Cameron (2004) explored the relationship between virtue and performance, and concluded that virtue produces positive energy in systems, enables growth and vitality in people, and enhances the probability of extraordinary performance. The performance enhancement is attributed to two characteristics: an amplifying effect and a buffering effect. Virtue is amplified by a cycle of attraction to virtuous acts and then emulating these acts. Ethical principles serve as fixed stable reference points, indicating right from wrong. Virtues provide other benefits, for example, courage, optimism, faith, integrity, forgiveness and compassion have been found to protect against psychological distress and dysfunctional behavior (Seligman & Csikszentmihalyi, 2000). Virtuousness serves as a buffer against individual and corporate dysfunction and illness such as harm, damage, violations of principle, selfishness, and greed; aspects that were prevalent at Enron.

Just how do you determine who the honest leader is? Shanahan and Hyman (2003) developed a scale that classifies people according to their beliefs about the virtuous qualities of businesspeople. This scale differs from other previous scales that measure either the criteria used to make ethical decisions or the ethicality of decisions. The virtue ethics scale measures six dimensions: empathy, protestant work ethic (PWE) – an ethic denoted by hard work and long hours, respect, piety, reliability, and incorruptibility. It is suggested that the scale could be used as a diagnostic to identify,

among other aspects, incongruent dimensions between the ethical cultures or exchange partners, ethically congruent hires, and reasons for employee turnover.

*Developing virtues.*

Kohlberg's seminal theory of moral development (summarized in Colby & Kohlberg, 1987) holds that moral reasoning, which is based on ethical behavior, has six identifiable developmental stages, grouped into three levels: pre-conventional, conventional and post conventional. Reasoning in the pre-conventional group concerns the morality of an action by its direct consequences. Additional research has indicated that this group should be expanded by an additional stage, calling for a 7 stage process. Individuals in the conventional group judge the morality of their actions by comparing these actions to societal views and expectations. Post conventional individuals place the "self before others" in their cognition but not in their behavior. In the sixth stage of this group, laws are valid only insofar as they are grounded in justice and that a commitment to justice carries with it an obligation to disobey unjust laws. An important prerequisite of moral development is direct and repeated experience with moral conflict in social context.

Although this model is associated with child development, findings indicate that development continues on into adulthood, "the highest stages of moral development do not appear until well into adulthood (Dawson, 2002, p. 155). Kohlberg has been criticized for his postulation that individuals do not regress in their development, but instead may fail to fully progress between stages. Additional criticism involves the emphasis of justice to the exclusion of other values (Jorgensen, 2006). Using these stages as a frame, it is

posited that Skilling and his executive leadership team were mired by their behaviors in the early stages of moral development.

How can organizations develop a strong moral center in future leadership? Walker, Haiyan and Shuangye (2007) suggest that developing a moral language to be used in the education of youth is one place to start. This is consistent with Kohlberg in the establishment of a moral social context. The foundation of developing moral literacy requires leaders to become knowledgeable, cultivate moral virtues, and develop moral imaginations as well as to possess moral reasoning skills. The elements of moral literacy should be connected to the community through participatory moral dialogue by sharing purpose, asking hard questions, and exposing identities.

Vera and Rodriguez-Lopez (2004) offer several steps that can be taken to instill humility into individuals; however it is suggested that similar tools can be taken for other virtues as well. The first tool is to provide exemplary leadership role models, reinforcing the premise that behavior is more important than proselytizing. For example, IKEA's CEO modeled humility and honesty by staying at inexpensive hotels when traveling. The second tool is to include virtues, such as fairness and caring, as elements of a firm's strategy and culture. The third tool is to ensure that hiring practices are aligned with desired virtues. The fourth tool is an extension of the third and involves promoting managers who reflect the virtues of the organization, weeding out self promoters and rule breakers. The fifth and final tool is that when unwanted behaviors are displayed by individuals they are immediately addressed and corrected, signaling intolerance for other than moral behavior.

*Summary*

The lessons learned from Enron and other similar organizations come at a great cost, particularly to those who lost their retirement holdings due to the mismanagement of the leadership team. If the lessons are in fact learned and organizations conform to consumer pressure to conduct themselves in a more transparent fashion then there can be a positive outcome from the Enron debacle.

Given the information gleaned here and using the application of virtue ethics as a prescription for moral health for organizations several recommendations can be made. First, organizational leadership must ground the firm in virtue language, ensuring that actions mimic words. Secondly, selection and promotion processes should reflect competencies of virtuous behavior, such as, fairness, honesty, trustworthiness, and a selfless orientation. To aid in this process, applicant interviews should explore situations that reflect the presence or absence of these virtues. “Have you ever reported anyone for lying?” What would you do if you saw someone falsifying an expense report?” In addition, inventories that measure individual and group characteristics should be implemented. Third, individuals who do not conform to virtuous behaviors should be corrected as soon as possible no matter the rank in the organization. In support of this, so called whistle blowers should not be viewed as pariahs but as corporate stewards and a system to ‘out’ moral infractions should be developed. Fourth, the corporate structure should include checks and balances to keep the honest members honest and to weed out the undesirables.

Had one morally grounded personality at Enron questioned the accounting and lending practices could the company have been saved? Given the overwhelming spirit of profit at all costs, it is assumed that one voice would not have made a significant

difference. They would have more than likely been silenced or cut from the herd.

According to Caza et al (2004), in the example of Enron:

a key factor in employees' misrepresentation and distortion was their inability to obtain the information they needed to make informed moral decisions. Many still claim that they did not purposefully commit any wrong. Rather in the ambiguity of a complex and rapidly changing corporation, they literally could not determine what to do and made decisions based on situationally constructed rules" (p.170)

By the time Sherron Watkins, the now famous *whistle blower*, voiced her concerns the organization was so systemically rooted in corruption it was beyond redemption.

However, if one virtuous voice infused with humility had influenced a few other Sharon's at the onset of ethical breaches, a small moral chorus may have created a cacophony of change.

Certainly the issues at Enron require a correction that went beyond just the area of virtues. However, it is suggested here that it may have been the very absence of virtue that allowed the situation to grow out of control. If, as Kantian ethicists state, the whole is never greater than the sum of its parts, then organizations should strive to ensure that each individual hired is a whole morally centered person of strong virtue. These individuals should build feminist constructs of relationships, exercising common morality norms of duty and behavior while exhibiting virtues that grow the organization. Academicians should instill curriculae that looks beyond profits to *doing good* while practitioners should not only correct those who fail to exercise virtue but should also instill incentives and rewards for those of exemplify the exercising of *good*.

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Appendix A

A Framework for Assessing the Application of Virtue Ethics

	Assumptions	Making of Virtue ethics operative	Problems	Value to the organization
Utilitarian	Maximizing net expectable utility for all parties affected by a decision or action is effective for all parties	Weighing of costs and benefits	Difficult for individuals to measure social good	Decisions that take into account the interests of all parties
Kantian	Persons should be treated as ends and never purely as means to the ends of others	If the individual acts out of concern for others at all levels	Absence of moral emotions or sentiments	If the individual acts out of concern for his/her obligations and if this is reflected at all levels of the organization then it should result in a virtuous organization
Common Morality	All people share a base of common norms or rules	Provides guidelines for employment practices, negotiations, and privacy issues	Application of tenants across cultures	Were an organization to follow universal norms, the result would be an organization governed by virtue ethics
Feminism and Ethics of Care	The self has relationships that cannot be separated from its existence; there is no 'I' without 'you'	The building of trust and loyalty	Variance between masculine and feminine cultures.	Using this approach with respect to customer and employee relationships, it appears to work and can build trust and loyalty
Virtue Ethics	Virtues are rooted in the heart of the individual and they are not innate but can be taught	Attention should be directed toward telling people what to be rather than what to do	Organizations often do not reinforce or reward virtues	Provides a frame for decision making and defines "right" and "wrong" actions

Appendix B

Enron Related Suspensions and Violations as documented by the General Services Administration and Virtues as Interpreted

<b>Organizations</b>	<b>Violations</b>	<b>Related Harm or Virtue</b>
<b>Enron</b>	<i>Misconduct Internal Control Irregularities</i>	
<b>Individual and Position(s) held</b>		
Richard Buy, Sr. VP and Chief Risk Officer	*Refused to testify before congressional hearing	Obey the law, do not deceive
Richard Causey, Sr. VP and Chief Accounting Officer	*Refused to testify before congressional hearing	Obey the law, do not deceive
Michael Kopper, Managing Director of Global Equity Markets Group	**Money laundering and wire fraud	Do not cheat or deceive, obey the law
Kenneth Lay, President, CEO and Chairman of the Board	***Conspiracy, fraud and insider trading	Do not cheat or deceive Obey the law, wisdom, Trustworthiness, humility
Jeffrey Skilling, President, CEO and COO	***Conspiracy, fraud, false statements	Do not cheat or deceive Obey the law, wisdom Trustworthiness, humility
<b>Arthur Anderson, LLP</b>	<i>Misconduct Destruction of Documents</i>	Do not cheat or deceive Obey the law, wisdom, Trustworthiness, humility
<b>Williard, Inc.</b>	<i>Misconduct</i>	Do not cheat or deceive
<b>Clinton Energy Management Services</b>	<i>Misconduct</i>	Do not cheat or deceive
<b>Portland General Electric Company</b>	<i>Misconduct</i>	Do not cheat or deceive

From: www.gsa.gov

\* [findarticles.com/p/articles/mi\\_m4153/is\\_2\\_60/ai\\_100075073/pg\\_5](http://findarticles.com/p/articles/mi_m4153/is_2_60/ai_100075073/pg_5)

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