WHY ETHICAL ORGANISATIONS NEED CULTURE-FOCUSED LEADERS

Some practical steps towards building a strong ethical culture

1. Are your employees treated with respect? When people are treated as trustworthy and responsible, they're more likely to behave as such (the 'Pygmalion Effect').

2. Are your managers aware of the impact of how they speak? Are they creating a culture of fear and blame with their words, or one of ethical accountability?

3. Do you appreciate and celebrate those who speak up? If they're treated poorly, this will inhibit others.

4. Have you trained all managers and leaders in how to RECEIVE challenge and dissent? Without this, your 'speak up' initiatives will fail.

5. Do you involve your people in setting realistic, fair and ethical goals, targets, incentives and deadlines? Failure to do this leads to 'cutting corners' and this, in turn, opens the door to unethical behaviour.

6. In your wider industry sector, what do you think of the behavioural norms? Are some of them unethical? If so, acknowledge it openly with your people and, together, discuss how you will tackle this critical challenge.

In the firing line!

There is justified concern about ethical wrongdoing in organisations, and in public life more generally. Scandals attract headlines and media scrutiny. Reputations and careers are damaged, often irretrievably. Shareholders express anger. Customers turn elsewhere. Voters make their presence felt. No sector is immune, it seems, including state and federal government. Increasingly, organisations are being held to account with a terse 'please explain,' delivered to boards and senior executives.

What they do next is crucial. A medical analogy effectively conveys the point. When you go to the doctor feeling unwell, the remedy proposed reflects the diagnosis reached; so too when things go wrong in organisations. If the explanation of the problem is accurate, then the solution implemented is more likely to work, than when an incomplete diagnosis leads to a less than satisfactory plan.

How is ethical misconduct typically explained?

The traditional view is that individuals of dubious moral character are the cause of unethical behaviour. Such people are too morally weak to overcome temptation. They are 'rotten apples' that need to be identified and discarded. Then we can recruit for firmness of character, training our leaders, in particular, to hold fast to integrity and honesty. This laudable view of the problem led to the publishing in 2003 of the influential book 'Authentic Leadership' (AL). An industry sprang up, focused on what was described as a new type of values-based leadership. Conferences were held; papers were presented; consultancies appeared and programs delivered. Yet even supporters agree the construct is based on less than robust self-report data.

But the authentic leadership proposition certainly has considerable appeal. With its roots in the ancient Greek admonition to 'know thyself,' it reflects the Socratic preoccupation with self-inquiry. A virtuous life involves courage and ethical soundness; strong leadership requires strong character. The authentic leader is guided by moral standards (captured in your Code of Conduct), and does not succumb to temptation. But the limitations of approaches based on these twin platforms of 'character' and 'compliance with a code' are now evident. It has emerged, for example, that most of the organisations currently under public scrutiny for misconduct did have codes and rules, as well as programs that stressed the need for authenticity and self-regulation.

Another explanation

Psychologists have demonstrated that the focus on 'Character-and-Code' has caused us to lose sight of the role played by context. Circumstances, it turns out, affect our response to moral challenges. Social

psychologists have long had difficulty with the 'virtue ethics' approach because it doesn't fit the evidence from large-scale, multi-country studies. These show that, morally, most of us are neither angels nor devils. We are an all-too-human mix of good and bad. Given a suitable context (and especially if we think we won't be detected), we might just cut a few ethical corners. Context can tip behaviour in a 'good' or 'bad' direction. For example, the Australian Taxation Office has just released their estimate of the current 'tax gap' as a whopping $8 billion annually. This is the gap between the tax that should have been paid, versus the tax that was paid. We're not talking about blatant wrongdoing, just a massive number of small misdemeanours by a lot of people.

The Princeton Experiment

Researchers wanted to examine the issue of 'character vs. circumstances,' so they divided Theology students (expected to be aware of ethical matters!) into three groups. Each group was told they needed to go to a building on the opposite side of the campus to make a presentation on the Biblical parable of the Good Samaritan. A third of the students were told they needed to hurry to get there on time; one third were told they had just enough time; and the last group was told they had plenty of time. On the way to their destination, an actor was planted. He seemed to have collapsed in pain, requiring immediate assistance – just as in the Bible story. If character was the main factor, then there shouldn't be much difference in the behaviour of the three groups. But only 10% of the rushed group stopped to help; 45% of the 'just enough time' group stopped; and 63% of the 'plenty of time' group offered help. Circumstances influence conduct!

Culture breathes life into 'character-and-code'

The 'character-and-code' approach doesn't stand up to scrutiny. A more realistic view accepts that we'll draw our leaders from a talent pool of people who are not especially good, nor particularly bad. In other words, pretty ordinary people, morally anyway! They'll be susceptible to temptation, doubt and poor choices. What is to be done about this fact of life? First, it helps if leaders learn up-to-date knowledge from social psychology about the circumstances which can lead reasonably good people to behave unethically. It helps if they know how human beings engage in the moral distancing techniques of ethics neutralisation to make unacceptable behaviour feel okay. But most of all, our leaders need to understand how to lead through the culture. They need to implement what APRA has called 'rigorous challenge'. This has to become the cultural norm ('how we do things round here'), acknowledging that most of us are flawed - but we can also shine, given a positive, ethical context!