Ethical Leadership and Decision Making

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Overview

• Ethical Leadership
• Ethical approaches
• Why are unethical or “bad” decisions made by organizations and individuals?
• Organizational culture
• Using an ethical decision making model
• Recent examples
• Improving organizational ethics and decisions
Ethical Leadership

• Five Business Ethics Myths
• Jesuit Leadership
• Pope Francis
• John Wooden
• Moral Person and Moral Manager
• Myth 1: It’s easy to be ethical.
• Myth 2: Unethical behavior in business is simply the result of “bad apples.”
• Myth 3: Ethics can be managed through formal ethics codes and programs.
• Myth 4: Ethical leadership is mostly about leader integrity.
• Myth 5: People are less ethical than they used to be.

The Jesuit Contribution to Leadership Wisdom

• We’re all leaders, and we’re leading all the time, well or poorly.

• Leadership springs from within. It’s about who I am as much as what I do.

• Leadership is not an act. It is my life, a way of living.

• I never complete the task of becoming a leader. It’s an ongoing process.

Source: Chris Lowney, Heroic Leadership, 2005.
Pope Francis as Leader

• Six foundational commitments of the new leader:
  – I will commit to know myself deeply.
  – I will transcend myself to serve others.
  – I will immerse myself in a complex world.
  – I will step back for daily reflection.
  – I will live fully in the present and revere my tradition.
  – I will help create the future.

Personal Qualities of a Leader

- Self-awareness
- Integrity
- Courage
- Authenticity
- Respect of self and others
- Character

Moral Person and Moral Manager

- Moral Person
  - Individual traits
- Moral Manager
  - Reputation
Be more concerned with your character than your reputation, because your character is what you really are, while your reputation is merely what others think you are.
The Moral Person and Moral Manager

Moral Person

Traits

Behaviors

Decision-Making

Moral Manager

Role Model

Rewards and Discipline

Communicating About Ethics and Values

Guidelines for Effective Ethics Management

• Understand the existing ethical culture.
• Communicate the importance of ethical standards.
• Focus on the reward system.
• Promote ethical leadership throughout the firm.

• Personal
• Professional (AICPA, IFAC, IIA, etc.)
• Organizational (mission, values, codes)
Definitions

.04 **Acceptable level.** A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that compliance with the rules is not compromised.

.05 **Safeguards.** Actions or other measures that eliminate threats or reduce them to an acceptable level.

.06 **Threats.** The risk that relationships or circumstances could compromise a member’s compliance with the rules.
a. **Self-review threat.** The threat that a member will not appropriately evaluate the results of a service performed by the member, or by an individual in the member's firm or employing organization, that the member will rely upon in forming a judgment as part of providing another service.

b. **Advocacy threat.** The threat that a member will promote a client or employer's position or opinion to the point that his or her objectivity is compromised.

c. **Adverse interest threat.** The threat that a member will not be objective because the member's interests are in opposition to the interests of a client or employer.

d. **Familiarity threat.** The threat that because of a long or close relationship with a client or employer, a member will become too sympathetic to their interests or too accepting of their work.

e. **Undue influence threat.** The threat that a member will subordinate his or her judgment to that of an individual associated with a client, employer, or other relevant third party because of the individual's (1) reputation or expertise, (2) aggressive or dominant personality, or (3) attempts to coerce or exercise excessive influence over the member.

f. **Self-interest threat.** The threat that a member will act in a manner that is adverse to the legitimate interests of his or her firm, employer, client, or the public, as a result of the member or his or her immediate or close family member's financial interest in or other relationship with a client or the employer.
• Principles and Rules
  – Integrity
  – Objectivity
  – Confidentiality
  – Competency
• For an individual we distinguish integrity as a matter of that person’s word being whole and complete. In that context, we define integrity for an individual, group, or organization as: honoring one’s word.

• Oversimplifying somewhat, “honoring your word”, as we define it, means you either keep your word, or as soon as you know that you will not, you say that you will not be keeping your word to those who were counting on your word and clean up any mess you caused by not keeping your word. By “keeping your word” we mean doing what you said you would do and by the time you said you would do it.

Major Ethical Approaches

- Egoism
- Teleology: Utilitarianism & Consequentialism
- Deontological: Duties/Motivation for Behavior
- Justice & Fairness
- Virtue Ethics
Corporate Stakeholder Accountability

- Shareholders
- Activists
- Governments
- Creditors
- Lenders
- Employees
- Customers
- Suppliers
- Others, including the Media, who can be affected by or who can affect the achievement of the corporation’s objectives

• Are the stakeholders different for accounting firms than for corporations?
• If so, what difference does this make in considering stakeholders and managing the firm?
Determinants of Reputation

Corporate Reputation

- Credibility
- Reliability
- Trustworthiness
- Responsibility

Reasons for unethical or bad decisions

• Culture, values, norms, and socialization
• Assigning responsibility
• Rationalization
• Self-deception
• Organizational deviance
Society and Organizations

- Culture
- Values
- Norms
- Socialization
A corporation is to be held responsible for harmful conduct perpetrated by one of its employees

- if the employee was acting under a general grant of authority provided to him or her and
- if no measures were taken to prevent the harm, though such measures could have been taken and the harm could have been reasonably predicted.

Organizational actors must

- investigate the projects they are working on and what others are doing with the outputs of their work;
- communicate doubts and concerns;
- protect those with less power from adverse consequences of investigation and communication;
- establish structures and mechanisms that prevent wrongdoing;
- take precautions not to get involved in questionable organizations to begin with.

The system responsible for the production of routine nonconformity includes:

- the environment of organizations,
- organization characteristics (structure, processes, tasks), and
- the cognitive practices of individuals within them.

The Fraud Triangle

Pressure/Need

Opportunity

Rationalization
Rationalization Tactics

- Legality*
- Denial of responsibility*
- Denial of injury*
- Denial of victim*
- Social weighting*
- Appeal to higher loyalties*
- Balancing the ledger*
- Everyone else is doing it**
- Entitlement**


Applied Ethical Decision Model

- Recognize an Ethical Issue
- Get the Facts
- Evaluate Alternative Actions
  - Consider and prioritize:
    - Professional principles and standards
    - Consequences (stakeholder analysis)
    - Personal and organizational values
- Make a Decision and Test It
- Act and Reflect on the Outcome

Adapted from an ethical decision model developed by the Markkula Center for Applied Ethics:
Potential Applied Ethical Approaches

- Professional Principles and Standards (Deontological)
  - Accounting principles
  - Auditing standards
  - Tax code, cases, etc.
  - Professional and regulatory codes and rules of conduct
  - Fiduciary responsibilities
  - Legal responsibilities
  - Organizational rules and procedures
  - Other relevant standards of practice, codes, or rules
- Consequences (Consequentialism)
  - Stakeholders and their interests
- Personal and organizational virtues/values (Virtue Ethics)
  - Integrity
  - Responsibility
  - Commitment
  - Objectivity
  - Courage
  - Etc.
Consultation/Collaboration

• In applying the ethical decision model, DON’T GO IT ALONE!
• Find others to get their feedback (consultation)
• Work with others toward a solution (collaboration)
• Seven Pillars of GVV Curriculum
  – Acknowledging shared values
  – Choosing to act
  – Normalizing values conflicts
  – Defining professional purpose
  – Understanding the self
  – Using one’s voice
  – Preparing responses ("scripts")

Stakeholder Analysis

Stakeholders: Now you are at a stage to identify the interested parties (i.e., stakeholders) based on the compiled facts and alternatives.

• Who is affected by our decision or any of the alternatives?
• What are their relationships, their priorities to me, and what is their power over my decision?
• Who has a stake in the outcome?
• Do not limit your inquiry only to those stakeholders to whom you believe you owe a duty; sometimes a duty arises as a result of the impact. For instance, you might not necessarily first consider your competitors as stakeholders; however, once you understand the impact of your decision on those competitors, an ethical duty may arise.

Consequences to the Professional

- Self (reputation, job, license, family)
- Firm
- Clients
- Profession
Well, a lot has changed over the last year. After making a mistake that cost me my career with a Big 4 accounting Firm and I am looking forward to starting over again. I have over 30 years in the public accounting world. Much of that was spent working with large, international companies, helping them with complex issues and assisting with key short term and long term strategic decisions. I have seen almost everything and I am well versed in the areas of accounting, operations, due diligence, turnaround activities, inventory management, online strategies, financial reporting and key day to day decisions that the "C" Suite make every day.

I worked 18 years a partner and know my way around a Board room very well. I also have managed over 500 personnel for the better part of 9 years. I have unique Personnel and Human Resource management skills which allow me to get the most of my people while at the same time helping develop them for the future.

Yes, I regret my past actions this year, but I am looking forward to a future in which I can assist another company as they address the challenges in business today. (source: LinkedIn)
Simple Approaches to Ethical Decisions

• The sniff test
• The gut test
• The momma test
• The Wall Street Journal test
Improving Organizational Ethics and Decisions

- Mission
- Tone at the top
- Leadership (at all levels)
- Culture, shared values, shared responsibilities
- Appreciation of cultural differences
- Policies and procedures
- Ethical decision models, including consultation/collaboration
- Risk assessment, including ethics/reputational risk
- Proper reward structure
- Training and reinforcement
- Hiring and retention practices
Questions?