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## **SIX FACETS OF ETHICAL LEADERSHIP: AN EXECUTIVE'S GUIDE TO THE NEW ETHICS IN BUSINESS**

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(1) How can a company tell what is ethical beyond standard personnel codes of conduct and regulatory compliance?

(2) What can it do to implement ethical leadership?

Ethics in business traditionally covers the code of conduct that companies observe toward employees, consumers, and other players in the marketplace. It is about what the company "must" do because of what it believes is right, or simply because of what it is required to do by law. As Robert Solomon of the University of Texas says, companies debate their values for many months, but they usually turn out to have similar lists. There is something about integrity; something about respect for the individual; and something about honoring the customer. While such moral codes are valuable in defining the character of a corporation, they are no longer a sufficient response to calls for greater business accountability.

### **What Is New Ethics?**

The New Ethics expands the code of conduct in business. It encompasses a company's responsibility for society and the environment, and it shifts the moral basis of action from abstract questions of right and wrong to whether a company is operating in a context of sustainability. Businesses now face a constellation of interests - market, social, and environmental - for which the capacity to adapt and regenerate has become the

central issue. From local communities to global financial markets, from entire industries to the quality of air and water, executives are influencing the sustainability of their operating environment.

The New Ethics is a conduct of business that enables a company to optimize its returns to shareholders, employees, customers, business partners, local communities and the environment. It is a dynamic standard for pursuing profitability and growth that allows future generations an equal opportunity for growth and development.

### **Marketplace Factors**

The New Ethics reflects the emergent realities of the marketplace. Companies are now being held accountable for degrading and damaging their social and physical environments. The digital economy instantly and globally transmits images of corporate negligence: exploitative maquiladora factories in Matamoros; the loss of the Papuna tribal way of life from copper mining; the dying sea otters and birds in the Bay of Valdez; the tobacco industry's endangerment of human health. The long-term consequence of such highly publicized cases is not the billion dollar fines and public outcry they incur. It is the marketplace pressures they create to include social responsibility and environmental sustainability in shareholder value calculations.

Marketplace pressures for sustainability are not only in the form of risks; they also present remarkable opportunities. Socially responsible investment funds such as the Domini 400 Social Index and the Dow Jones Group Sustainability Index (DJGSI) are now outperforming the market, in both cases by more than a hundred percentage points on back run numbers from 1990 to 2000. Consumer preferences for socially responsible companies are becoming widespread. In one recent Canadian study, 79% of respondents said they would always buy preferentially from companies that are good corporate citizens (Angus Reid Group, 1997). Talent in scarce labor markets such as high technology is being drawn to companies that demonstrate good corporate citizenship.

Thirty years ago Nobel prize-winning economist Milton Friedman said that "there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits." While many business

leaders argue that this continues to be true today, few deny that social and environmental sustainability are now major considerations in profit and loss. Ethical leadership is becoming smart business.

### **What Is New Ethical Leadership?**

Suppose a company recognizes that it is in its own best interest to act ethically.

(1) How can it tell what is ethical beyond standard personnel codes of conduct and regulatory compliance?

(2) What can it do to implement ethical leadership?

The Six Facets of Ethical Leadership (SFEL) provides an ethics framework for companies searching for practical answers to these questions.

A number of beliefs about the nature of ethics and global business underlie SFEL. The first and most important is that there is no universal prescription for ethical leadership. Given the diverse value systems and goals of different companies and cultures, ethical leadership is generated from within a particular corporate environment rather than from a single moral blueprint applicable to all companies. Second, ethical leadership is most effective when it is fully integrated into a company's operations, like customer care or quality control and unlike external community sponsorships or charitable contribution programs. Ethical leadership is something that is rooted in a company's core purpose - one that declares a larger reason for being in business.

### **Measuring Return on Ethics (ROE)**

Shareholder value remains the primary yardstick by which success of ethical leadership initiatives is measured. Indeed the foundation of SFEL is that profits and ethics go hand in hand. Shareholder value is increasingly influenced by intangibles related to environmental impact, social responsibility, and values-based leadership - the components of a Return on Ethics (ROE). Those companies that ignore ethical conduct are finding that it matters to the bottom-line. From higher costs to lost revenues, from worsening stock valuations to employee hiring and retention problems, not behaving ethically has economic

consequences.

The New Ethics is not about warm and fuzzy feelings. It is a hard-nosed response to growing pressures in the marketplace as much as it is about our stake in the environment we share and the communities in which we live.

Based on these considerations, SFEL consists of a framework and methodology for implementing ethical leadership in business.

### **The Six Facets of Ethical Leadership (SFEL)**

Ethics is indivisible. In this sense, the Six Facets are like the facets of a cut diamond. Each is an integral part of the whole. The Six Facets of Ethical Leadership are presented sequentially and companies can choose the ones they wish to start with but they have to understand that the Six Facets are essentially inseparable. The most important insight is the connection between them.

The framework below consists of a set of high-level criteria that individual companies use to specify ethical leadership according to their own business needs.

#### **Shareholders**

- The Company meets shareholder expectations without impairing its social, physical, or business environment.
- Annual reporting is provided to shareholders on legal and regulatory compliance as well as on social and environmental initiatives beyond compliance.
- The Company's investment strategy has negative selection criteria for activities that involve undesirable social, environmental, business practices.
- The Company's investment strategy has positive selection criteria for activities that involve desirable social, environmental, business practices.

#### **Employees**

- The Company's vision and values are articulated to employees with measurable standards of business ethics, social responsibility, and environmental sustainability.
- Employees contribute to the formulation of the vision and values at their level and embody them in day-to-day

practices.

- Annual performance evaluations, compensation systems and career progression criteria fully integrate the vision and values.
- The Company is actively engaged in the lives of its employees, learning their concerns, understanding their needs, and contributing to their development.

### **Customers**

- The Company accurately represents its products and services relative to their long-term benefits and costs including safety, social consequences, environmental toxicity, reusability and recyclability.
- The Company makes its best effort to educate customers as to the social and environmental impact of its products and services from cradle-to-grave.
- Innovation and new product development shape the industry toward greater sustainability, social responsibility, and corporate citizenship.

### **Business Partners**

- The Company does not do business with companies that knowingly degrade or otherwise cause significant damage to shareholders, employees, customers, business partners, communities, or the environment.
- The Company offers preferential status whenever possible to business partners evidencing new ethical leadership.

### **Local Communities**

- The Company does not do business in markets or support regimes that violate basic human rights.
- In addition to established corporate giving or patronage programs, the Company is actively engaged in the life of its local communities, learning their concerns, understanding their needs and contributing to their development.
- Employees of the Company are encouraged and given opportunities to devote part of their time to socially responsible activities, doing volunteer work or contributing to the conservation and revitalization of the community.
- Open dialogues exist between the Company and the

- local communities in which it operates.
- Companies respect the diversity and variety of economic, social, cultural and political conditions in which they work.

### **The Environment**

- The Company complies with environmental regulations and laws.
- The Company consistently seeks pollution-prevention and waste minimization in its supply-chain. It anticipates environmental regulations in reducing negative impacts on the environment.
- The Company establishes its own Environmental Management Systems.
- The Company is actively pursuing eco-efficiency and dematerialization of its value-added to customers.
- The Company is continually designing itself for environmental sustainability, including the recycling of nonrenewable resources, consuming renewable resources at a rate that allows them to regenerate, and limiting the reduction of biodiversity.

### **SFEL Methodology**

The company begins with an internal assessment of current business activities using the SFEL criteria under each of the Six Facets. The approach builds a safe and respectful environment for people to inquire, generate purpose and take actions. A new set of questions arises naturally concerning the company's sustainability impact on shareholders, employees, customers, communities and the environment.

When purpose is grounded in both the pursuit of increasing shareholder value and taking responsibility for the company's social and environmental actions, a transformation occurs in the organization's capacity to innovate and produce results. Leadership becomes centered on enduring shared values.

This leads to an organizational context in which innovation and creativity produce profit breakthroughs consistent with an ethical conduct of business. The SFEL methodology for creating such a context is centered around two linked processes:

A) facilitated dialogue in medium-to-large groups; and

B) a 5-step approach to ethical leadership development consisting of

1. Discovery
2. Strategy
3. Action
4. Change Competency
5. Recognition

A) Facilitated dialogue in medium-to-large groups

Effective facilitated dialogue allows a group to become extraordinarily powerful in accomplishing desired business results. When current worldviews, operating positions, external factors (business competition and environmental concerns) are mutually understood, new openings emerge in the design of a sustainable future. The group is able to explore possibilities and develop commitments that the participants would be incapable of individually. This is because creativity and innovation arise from the actions and interactions of many agents — something that systems scientists and biologists have long known to be true of the evolution of living systems.

Effective facilitated dialogue connects people to their purpose and to each other. It builds a consensus that people “own” from having participated in its creation. It impels large numbers of people with diverse views to align directionally on strategy. It provides a compass in what is often a disorienting work culture.

Finally, an effective dialogue process is essentially self-sustaining, using the facilitator as the source to ignite it and as a resource for specific knowledge areas such as the New Ethics. As the group generates its purpose and practices, it organizes itself to answer the dialogue’s principal questions without need for a central decision-maker. In this way ethical leadership emerges from the shared intelligence of the participants.

B) The 5-step process to ethical leadership development

This process focuses on the timing and levels of organization involved. The sequence can vary depending on a company's

starting point, but in general follows the following order.

1. Discovery. Inquiry and dialogue on what ethical leadership means for each company are initially held on two levels: middle-level management, and senior leadership. An internal assessment of the sustainability of current business activities identifies areas that forward both shareholder value and social responsibility. New distinctions in business ethics are introduced.

2. Strategy provides a framework and the tools for developing a corporate intention that integrates ethical leadership into business objectives. People rethink and redesign the activities that deliver value to customers, within the context of sustainability and profit and growth.

3. Action requires incubation projects and business-altering “pilots” that demonstrate the company’s strategic intention and make it possible to accomplish the key objectives of SFEL with speed and efficiency. It integrates into the current fiscal year's priorities the specific breakthroughs generated from combining ethical inquiry and profitability targets.

4. Change Competency develops cultural and organizational capabilities for change. A structure of support is put in place so that people are aligned on the Company's purpose. In their day-to-day work, they perpetuate value-added practices for sustainability consistent with increased shareholder value.

5. Recognition is in the form of a “Certificate of Ethical Leadership” awarded by the Club of Budapest and backed by its world-renowned Members. It is provided to companies interested in a high profile recognition for their declared commitment to the New Ethics. It requires companies to take a stand for ethical leadership by declaring their intention to the marketplace, and it requires measurable or observable achievements over a twelve month period.

For more information about SFEL and the Innov-Ethics Group, please contact us at [www.innov-ethics.com](http://www.innov-ethics.com).