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# How to Develop Ethical Leaders: One Professor's Reflection

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## **ABSTRACT**

This paper reports on one professor's goal to guide graduate students and to place them on an ethical path. What are the primary steps in helping graduate students develop into senior leaders who are grounded and ethical? This paper allows me to share my experience and to invite others to collaborate on this topic at the 2017 NBEA Conference.

## **Keywords:**

Ethics in graduate education, Ethical scandals. Teaching ethics. Yahoo Data Breach. Wells Fargo Fake Account Scandal. Shkreli. Daraprim. Volkswagen scandal.

## **1 INTRODUCTION**

This conference paper is less scholarly and more practitioner-oriented. It is a reflection on what is needed to place developing leaders on a good path toward understanding ethics in business. It is written in the first person; as a Dean and as a professor, I know that I am not alone in seeking insight as to this goal. My goal is to share my experience and to invite others to collaborate on this topic at the 2017 NBEA Conference. I value capitalism as our Economic system, but, I recognize that when deception finds its way into a free market, damage can be done to our economy. I strongly believe that it is job-creation, social awareness, and sustainable economic growth, with profit as a healthy by-product, that will support and heal our society. This conference paper shares my experience and recommendations.

## **2 TEACHING ETHICS**

What are the primary steps in helping graduate students develop into senior leaders who are grounded and ethical? In my role as an educator and a leader, the issue of Ethics has always been close to my heart. Many have suggested that ethical behavior cannot be taught; it is either part of the individual's fabric, or it is not. I respectfully disagree. Ethical behavior, as is other human behavior, can be influenced, modeled, and taught. In this conference paper I will join together four related topics: (1) What is expected of business schools, (2) seeing the ethical dilemma, (3) business strategies, and (4) a capstone experience that embeds social responsibility as a learning outcome.

## **3 WHAT IS EXPECTED OF BUSINESS SCHOOLS**

In my corporate life, my colleagues and I did a substantial amount of corporate training. Ethical decision making was part of that training; but, that is *less* the case today. There is less training dollars; the work belongs to the colleges. So, what do corporate cultures expect from Business Schools? I personally interviewed thirty-two (32) subjects that had three different viewpoints on this topic: (1) Senior Leaders who influence the cultures of their organizations and make decisions related to selection and promotion. (2) Individuals who lead corporate ethics programs; and (3) Ethics scholars.

The analysis of these in-depth interviews revealed 4 primary insights: (1) to teach the student to develop courage. It is scary to be faced with a situation that you do not know how to handle. It is easy to fear retaliation. Courage is needed to question a superior or to act in a way that goes against the groupthink. (2) To teach persuasive communication skills: How does a young leader say "No?" Inexperience may cause a young leader to appear arrogant if the questioning is not respectful. Students should learn how to have a difficult conversation, without damaging their long term careers. (3) If a young leader does take a step down the wrong path, it desensitizes the person to take another step. Each becomes less difficult. The slippery slope has started. And (4) seeing the dilemma! Consider the classic story of the classic runaway Trolley. The dilemma emerges: Do you push the large person off the bridge to stop the runaway trolley to save the five people tied to the track, *or* do you do nothing and allow the five to die. My research, as well as other research, reveals that many times we do not even *see* that a dilemma that lies before us. The leaders and philosophers who served as the subjects shared that developing leaders need to, "...understand where the grey is within the grey." The young leader must understand that the world is not black and white. But they must see where the lines are.

## **4 SEEING THE DILEMMA**

We are all amazed when the big scandals break. As business professionals we find it hard to understand how smart leaders can take such a severe turn toward possible ruin. The most recent scandals provide excellent examples.

### ***Volkswagen Emissions Scandal***

The turbocharged, Direct Injection line was clean and efficient. But, back in 1974 Volkswagen agreed to a settlement with the EPA, paying the \$120,000 fine for failing to disclose the existence of two temperature sensing switches that influenced emissions functions and disabled certain pollution-controls. Yet 42 years later we find that software was installed in the TDI line of cars that could sense when the car was being tested. If the car started cold, drove for 6 miles with little diversity in speed and direction, the software then turned *on* the emission controls. Yet, on the road, poisonous Nitrous Oxide emissions rose to 40x the legal limit. Eleven million vehicles worldwide were rigged, one-half million in the United States. Chief Executive Officer Martin Winterkorn apologized and resigned. Michael Horn, top United States leader blamed it on a few bad engineers; he too is ultimately replaced. The buy-back, repair, and fines will set Volkswagen back \$18 Billion in the United States alone. The VW Brand has strong history; its reputation stood for value. The lingering tarnish comes from the intentional deception that disregarded a customer's wishes to be environmentally safe and to buy a trusted brand. Only time will tell how the brand survives.

### ***Yahoo Data Breach***

This next case reveals a different leadership challenge. It reflects a lack of responsible practices and transparency. Earlier in 2016 it was announced that 500 Million Yahoo Accounts were hacked. User names, emails, phone numbers, and birthdates, security questions and answers, were stolen. The next announcement in December, 2016 reported that over 1 billion accounts had been hacked earlier and never uncovered. Password fatigue, which means we tend to use the same password over and over, as well as the security questions, creates a dangerous situation for Yahoo users. In the various lawsuits claims are being made that Yahoo was grossly negligent in dealing with and reporting the security breach; it recklessly failed to protect its systems in accordance with required protocols; it violated several laws by failing to use reasonable security measures, and it took too long to uncover the breach.

Did Yahoo avoid seeing these breaches in a timely manner, to avoid the standard cost when a breach occurs, which is about \$5.00 per account, so that the \$4.8 billion Verizon deal was not influenced?

### ***Wells Fargo Fake Account Scandal***

Under Dodd Frank many of the revenue streams that a bank, such as Wells Fargo could pursue, were eliminated; the revenue demands did not change. Cross-selling at the retail level was the short-term answer. *Eight is great* became the motto and the *goal* - every customer *should* have 8 accounts with Wells Fargo. To achieve that, a high pressure sales culture created a humiliating workplace; fear of being fired was prevalent. Employees, under extreme pressure, created millions of fake accounts and forged signatures. Customers were billed for fees that they did not understand. Leadership transferred blame to the frontline employee firing over 5000 employees; yet executives were saved. The lack of

accountability that CEO Jon Stumpf displayed under Elizabeth Warren's questioning at the Senate Banking Committee hearing, was difficult to watch. Stumpf was fired and the trust in the brand was severely damaged.

## **5 BUSINESS STRATEGIES**

The large scandals are easy to point to and say, how can this happen? But as we consider the research gained from Sr. Leaders: without courage, without the skill and willingness to say "no," without understanding the slippery slope, the dilemma may not be seen until it is too late. When you ask a young leader, *what is the goal of a corporation*, often you hear *to make a profit*. What is forgotten is Peter Drucker's lesson that the goal of the company is to stay in business. Short term business decisions may damage the long term health of the organization, which is *not* in the best interest of the stockholder. For instance, an ethical leader knows the difference between competitive pricing and profiteering. Although some State of Emergency laws will prevent suppliers of essential goods from raising prices, but what if this is not the case? What if the audience is narrow in scope and less represented, such as the case with the Epi-pen; and more compelling, the case of former CEO Martin Shkreli and the 62-year-old drug, Daraprim, when Turing Pharmaceuticals raised the price from \$13.50 to \$750 a pill for HIV patients. This may be good business practice that serves the stockholder yet exploits the customer. Yet, without the customer's loyalty, there is no company.

Many decisions focus on how to maximize stockholder value: Nike had to make a long walk-of-shame from its 14 cents an hour salary, mis-treatment of labor, and abusive working conditions, to its more transparent practices. Leadership should ensure that the organization's employee mix reflect the surrounding workplace region and its market. Does leadership seek various viewpoints, even when those views differ from the accepted practices of the past?

In 1970, a group of women filed a class action lawsuit against Newsweek. It was settled with the promise that women would become candidates for positions traditionally set aside for men. But, gender inequality still persists. Women are still paid approximately 80 cents to the male dollar.

Chia Hong, a Taiwanese female, brought suit against Facebook citing that she was made to serve drinks to male co-workers and was excluded and belittled. Tina Huang filed a suit against Twitter for its internal "tap on the shoulder" practice for promotion. Katherine Moussouris filed suit against Microsoft citing systemic discrimination related to evaluations, pay, and promotion.

All 3 of these suits were filed in 2015. Young, future leaders need to see that practices seek, hire, train, and promote based on merit, blind to gender as well as race, religion, and sexual orientation.

## **6 THE CAPSTONE EXPERIENCE AND SOCIAL RESPONSIBILITY**

This topic brings me back to where I started; what can I do to better prepare future leaders to ethically navigate the challenges of the world of business. As Molloy College students take their final steps in earning their business degrees, they *must* show evidence of learning; not only the knowledge and skills required of a business leader, but *also* the development of a disposition toward professional and social responsibility. For the capstone class, each student takes on the role of a consultant for an organization that serves our society. Their clients include government agencies such as the Commission on Human Rights, and not-for-profits, such as Sustainable Long Island, Island Harvest, and Canine Companions for Independence. The client provides the students with a real-world problem. The students must learn about the industry and the client, for which they had no prior knowledge. They must use their knowledge and skills to make recommendations that will help resolve the problem. The results have been wonderful; but, the learning outcome of developing a disposition that business can serve society, becomes embedded in the student's mindset.

## **7 CONCLUSION**

Before I close my reflection, I wish to remind us what Milton Friedman said: "the only social responsibility of business is to increase its profits." We have all heard this, but, he did not stop there. He continued to say, "so long as it stays within the rules of the game, engaging in open and free Competition without deception or fraud." The new administration has pledged to reduce business regulation by 75% or more. Less government oversight presents not only opportunities, but also added responsibility by leaders to self-govern. Now more than ever, senior leaders are on their own. When given authority, we gain influence. Influence is power; but as ethical leaders, we know that we are also stewards. There are leaders who take the authority and the power, and embrace privilege. The privilege is not always used to serve the larger economy, where all have an opportunity to thrive. Collectively we can guide our developing future leaders to embrace the authority and the responsibility. We will guide them to use their influence to make the world a better place for all.

## **REFERENCES PROVIDED UPON REQUEST**

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