Leading Effectively by Leading Ethically: Expanding the Ethical Domain

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Leading Ethically in the New World of Work
Conference of the Center for Leadership and Organizational Effectiveness
University at Buffalo
April 7, 2022

Introduction

I believe that if we are to lead effectively in the new world of work, we must lead ethically. In fact, we must expand our definition of what it means to lead ethically. We must add to our current principles and practices and build stronger relationships with all of our stakeholders— those who contribute to the success and sustainability of the organization. There are ways in which we can build those stronger relationships so that we will not only be ethical, we will be effective, and our organizations will perform at even higher levels.

The new world of work

At the outset, we need to ask: What will the new world of work be like? Of course, it's hard to say. We have been experiencing changes, but we don't know which changes will be lasting, which will be transitory, and to what degree they will be either lasting or transitory.

While the near-term is full of uncertainties, I believe that our biggest issue in the new workplace will be one that was a big issue before the pandemic, and that is employee disengagement. For decades, the Gallup Organization has been surveying millions of employees around the world, and it has found that the percentage of people who feel "actively engaged" is usually no more than 30 percent and can be as low as 13 percent. These are the employees who care about their jobs and their organization. They bring their energy and innovative ideas to work.

The next group, known as "disengaged" employees, account for about 50 percent. They are just occupying a seat, going through the motions, not really caring very much about what happens. Worst of all is the third group, the "actively disengaged" employees, who account for about 20 percent. They are unhappy and are actively working against the organization, undermining their fellow employees and behaving in hostile ways.

The yearly losses due to disengagement are thought to be in the trillions of dollars. It has been estimated that active disengagement costs the United States between $450 billion and $550 billion each year. This is an immense waste. If we can engage more employees, there will be many benefits. Gallup concludes that organizations in the top quartile for engagement have better customer ratings, are more productive and profitable, experience less employee turnover, have less absenteeism, produce fewer defects, and have fewer safety incidents.[1]

I suspect that recent trends are making employee engagement a bigger challenge. About ten years ago, I read articles by futurists who predicted that more jobs would be short-term contract jobs or consulting jobs, and more people would work at home. The pandemic certainly accelerated remote work for those fortunate enough to be able to work from home. Others lost their jobs or could no longer work. People became less connected to their places of work and those with whom they work. It seems to me that it is harder to engage employees when fewer of them go to a common workplace and spend the day together.

So we have a long history of disengagement, plus some trends that have been accelerated by the pandemic that have arguably resulted in weaker connections between people and their organizations. My opinion is that if we wish to lead effectively in the new world of work, we must *increase* our engagement and connection with *all* our stakeholders.

Personal biases

Before going further, let me make some personal disclosures and share some of my biases. I believe that morality and ethics are extremely important to the happiness of individuals, families, organizations, communities, and nations. I have believed this for a long time. As a result, I have tried to learn about morality and ethics. For example, as a college student fifty years ago, I took a course in moral philosophy, and as a graduate student fifteen years ago, I took a course in moral theology. I have enjoyed reading books and articles about ethics.

However, while I appreciate scholarly work, I am a practitioner. I have had the opportunity to serve in leadership positions in the public, private, nonprofit, and academic sectors. In the public sector, I was the head of a state government agency; in the private sector, I was a business attorney and a high tech park developer; in the nonprofit sector, I was a YMCA executive and the CEO of two small nonprofit organizations; and in the academic sector, I served as President of two private universities. I care about ethics because I have faced ethical dilemmas as a leader, and I found that dealing with those dilemmas was not easy. I have looked to others for guidance. In addition to advice from mentors, I have benefited from reading books by people like Dr. Joseph Badaracco, professor of business ethics at Harvard Business School, and Dr. Richard Kyte, professor of ethics at Viterbo University.[2] I am grateful to those who have helped me along the way.

I believe that ethics is fundamental to leadership, because ethics is largely about how we treat others, and leadership is a way of treating others— specifically, a way of treating people in groups or organizations. We often define leadership as the process of influencing a group of people toward the achievement of a common goal. We want to have an impact on those we lead. I believe that our impact must be moral. We must influence people in moral ways toward moral ends.

I have no doubt that the ethical behavior of the leader has a significant impact on the ethical behavior of the leader's followers or colleagues. The leader sets the ethical tone and example for the organization. That's why an understanding of ethical issues and a track record for ethical decision-making should be prerequisites for promotion to leadership positions. Ethics should be emphasized in leadership courses and on-the-job training. We need to make sure that leaders are able to recognize ethical issues when they arise, and have at hand some principles and practices that can help them to make good ethical decisions.

I have been passionate about servant leadership for the past thirty years. One reason is that servant leadership embodies ethics in its definition and operations. Servant leaders identify and meet the needs of others. They serve people, grow people, and care about everyone the organization touches. They also create an environment in which employees can raise and discuss moral issues.

There are, of course, a number of lenses, philosophies, or approaches to morality and ethics. I remember being taught at least three philosophical approaches: (1) the deontological, or rule-based philosophy, often associated with Kant, under which an action is right or wrong depending on whether it follows the rules; (2) the flourishing approach, usually associated with Aristotle, which focuses on virtues and character; and (3) the utilitarian, or cost-benefit approach, usually associated with Bentham and Mill, which seeks to determine the greatest good for the greatest number. These approaches help me to think about ways in which we can be more ethical and more effective as leaders. Because this conference is about the workplace, I will focus mostly on how we relate to our colleagues or employees, but I will also have some things to say about other stakeholders.

The rule-based approach

Let's start with rules about how we should treat each other. I believe that, at the most fundamental level, there is a lot of agreement around the world about how we should treat each other. For example, we should not kill, lie, cheat, or steal. I believe that people have learned over many thousands of years that these rules help them to live together. Ethics and morality are practical. They help us to manage our basic human needs, relationships, and activities.

It turns out that our basic human needs, relationships, and activities have not changed a lot over many thousands of years. That is why we can understand the Code of Hammurabi, which was promulgated sometime around 1750 B.C., nearly 4,000 years ago. It has sections that cover family and marriage laws, laws of commerce, offences against property, crimes against persons, and professional standards. As we read the Code of Hammurabi, we can understand the situations and moral issues that are addressed.

Perhaps the most universally recognized ethical standard is the Golden Rule— do unto others as you would have them do unto you. We should treat others the way we would like to be treated. At work, most of us want to be respected, trusted, informed, and consulted. We want reasonably good pay and working conditions, and we want the opportunity to grow and contribute to the success of our organizations.

I like what has been called the Platinum Rule— do unto others as *they* would have you do unto them. That shifts the standard so that it is not about how *I* prefer to be treated, it is about how *others* prefer to be treated. I remember seeing some research that indicated that there are differences between what managers think is most important to their employees and what the employees themselves say is most important to them. For example, managers think employees place the highest priority on money, but the employees give higher priority to things like being respected, trusted, informed, and consulted. We should follow the Platinum Rule by asking our colleagues and employees how they want to be treated, and then do our best to respond. That's why it is a good idea for members of an organization to be involved in articulating and shaping the rules for the organization.

Of course, many rules are embodied in laws and regulations. However, as we know, what is legal and what is moral are not always the same thing. An action can be legal but not moral, or moral but not legal. The danger, here, is that an organization may see the legal minimum as its moral maximum. If an organization merely abides by the law, it can miss the opportunity to be truly moral in the way that it cares for its stakeholders. There are times when we need to go beyond the law to be truly moral.

I feel challenged by the statement of the great eighteenth century philosopher Immanuel Kant that we should treat people as ends in themselves, not merely as a means. We should not use people. We should not treat them as factors of production, or a budget line item, or expendable cogs in a machine. We should treat people as whole people, as individuals with wants, needs, hopes, and dreams. We should respect them, include them in decisions, engage them, and enjoy working with them. Seeing them as ends in themselves helps me to think beyond what is merely legal to what is truly moral.

Here's an example. Years ago, when I was one of the leaders of an organization, we learned that the wife of one of our managers was losing her fight against cancer. She wanted to return to her home state to be with her family when she died. Our manager left, took her home, and was gone for six weeks. We did not make him use his vacation time, and we did not put him on leave without pay. We kept him on payroll the whole time, so he was still earning the money that he needed to take care of his dying wife. This was not required by law but it was the right thing to do. It was the kind of thing that you do when you want to be a community that cares for its members.

Here's another example. When the pandemic started in 2020, I was one of the leaders of an organization that had a lot of part-time employees. Many of them had a second part-time job that helped them to make ends meet. We kept everybody on payroll, but many of our part-timers lost their second part-time jobs. We knew they were struggling financially as a result. We also knew that they were not likely to ask for help. So we made an announcement, saying that financial help was available. Then we asked staff members to let us know if they discovered anybody who was struggling financially.

Word got back to us, and we wrote checks for two people. We just gave them extra money. When the checks were delivered, there were tears in the eyes of those delivering the checks as well as those receiving them. It was not required by law, but it was the right thing to do. It was the kind of thing that you do when you want to be a community that cares for its members.

Not everybody is willing to go beyond the law to be moral. I was on a senior management team that wanted to give healthcare benefits to any employee who worked 15 hours or more per week. We thought that every member of our team was essential to our success, and we had the money to provide healthcare to each team member. Our Board of Directors said no, the law only required us to give healthcare to employees who worked 20 or more hours per week. They went further and suggested that we limit part-time employees to no more than 19 hours per week, so we could *avoid* paying them healthcare. The Board only wanted to do the minimum required by the law. We wanted to do more. We wanted to do what we thought was the right thing to do.

Focus on flourishing

We know that rules are important, but so is character, and character is shaped by values and virtues. An effective organization usually has people of good character, people who understand the purpose of the organization, and exercise practical wisdom. They are committed to the common good. They care about each other and the long-term success of the organization. They have the courage to speak up when something is not right.[3]

James Kouzes and Barry Posner, in their book, *The Leadership Challenge*, reported that they asked 75,000 people around the world what they look for and admire in a leader. The top-ranked characteristic over a twenty-year period was honesty.[4]

Peter Northouse, in his book, *Leadership: Theory and Practice*, described five principles of ethical leadership. He says that an ethical leader respects others, serves others, shows justice, manifests honesty, and builds community. Northouse said that the origins of his five principles of ethical leadership can be traced back to Aristotle and virtues such as courage, temperance, generosity, self-control, honesty, sociability, modesty, fairness, and justice.[5] Justice, prudence, fortitude, and temperance are referred to as cardinal virtues.

My understanding is that for Aristotle, the goal of ethics is to lead a life that is happy, and a happy life can be achieved if one acts in accordance with virtue. The Greek word for happiness (*eudaimonia*) can also be translated as "flourishing," and that word strikes a chord with me. I think that we should all want to flourish, and we should want to help others to flourish as well.

Let's start with our colleagues and employees. As the saying goes, if we take care of our employees, they will take care of our customers, and our customers will take care of our business. So let's talk about taking care of our colleagues and employees. I will suggest three ways in which we can help them to flourish: (1) support their lives beyond the workplace; (2) strengthen the organizational communities in which they work; and (3) help them to find meaning at work.

Support people's lives beyond the workplace

First, some of the things we need to do for our colleagues and employees will relate to working conditions. As you know, many people resigned their jobs during the pandemic—so many that it has been called "The Great Resignation." Matthew McSpadden, CEO of Weld Recruiting, recently provided this advice to companies:

> Smart companies will start catering to their current employees to build the most flexible, attractive work environment and company culture that considers remote work, work-life balance, mental health and burnout, fulfillment and growth opportunities, benefits and incentives — as well as start paying attention to their employer brand.[6]

Gallup published an article last month sharing the results of their survey of 13,000 employees who were asked what they want in their next job. The men and women who were surveyed had the same top four factors, although in a different order. The top factors were a new job that provides (1) greater work-life balance and better wellbeing; (2) increases income and improves benefits; (3) allows me to do what I do best; and (4) provides greater stability and job security.[7]

The idea is that the work needs to be done, but we can be flexible in how and where it gets done. We can go beyond the workplace. We can take into account the private lives of our colleagues and employees, and we can make adjustments that help them to flourish and be more effective.

In his talk on "Understanding Empathy," Simon Sinek says that as the leader, "you're not in charge, you are responsible for those *in* your charge."[8] Your job as a leader is to support, encourage, understand, and connect with those you lead. We can engage and connect better when we see our colleagues and employees as whole people, with lives and needs outside of work.

Here are two examples. Between 2007 and 2014, Joe Patrnchak led a successful effort to lead a change process at the Cleveland Clinic, one of the largest and most respected healthcare systems in the world. The clinic currently has over 67,000 employees and 7.6 million patient visits per year.

Joe commissioned a survey on employee engagement that showed that engagement was poor. In response, the clinic launched a number of programs, including a "care for the caregivers" program that established a series of new employee benefits. These benefits helped people in their lives beyond the workplace. One was an "Adoption Assistance Benefit" for staff members adopting children. Another was a "Caregiver Hardship Program" for staff members with financial emergencies. There was a "Tuition Reimbursement Program" and a "School to Work" program to help staff members complete their educations. There was also a wellness program that gave staff members free access to Weight Watchers and Curves. Over 12,500 employees participated in the wellness program, and they lost a total of 75,000 pounds. As a result, the clinic saved $78 million in healthcare costs. The staff flourished, and the clinic saved money.

The results of the employee engagement efforts were not immediate. At the end of five years, however, the ratio of "engaged" to "actively disengaged" employees went from a dismal 2.5 to 1 to a world class 10.5 to 1. It was an extraordinary improvement.[9]

Here's another example. L&R Pallet Services is a Denver company with 130 employees. Years ago, they had a 300% turnover rate. Most of their employees were immigrants, and they spoke many different languages. James Ruder, the CEO, said that in those days, he treated employees as a commodity. He had to focus on recruiting and training because so many employees left so quickly. Then he discovered that his senior managers were embezzling from the company. That discovery, followed by a personal experience with his family on a mission trip to Peru, caused him to change his approach.

Ruder decided to get to know people and find out what was going on in their lives. He met their families, and he saw how they lived. One of their employees lived in a small room, where he slept on the floor because he didn't have a mattress. A bag of rice was his most important possession.

Under Ruder's leadership, the company started supporting its employees with such things as clothing, a workshop on preparing your tax returns, and help getting driver's licenses. Ruder said: "I can help them to be successful here at work by helping them to be successful in life… We'll come alongside them and help. We'll give them more than just a paycheck." The result was that employee turnover dropped dramatically from 300% to 30%. Helping employees beyond the workplace was the right thing to do, and it made the company more successful financially.[10]

Strengthen our organizational communities

Another way we can help our colleagues and employees to flourish is to build strong communities at work. In his book, *Leaders Eat Last*, Simon Sinek says that the goal of leadership should be to create a culture in which people experience a Circle of Safety. He says that when you create a Circle of Safety around people, they feel valued by their colleagues and cared for by their leaders. They don't feel threats from within the group, and don't need to spend time and energy protecting themselves from each other.[11]

It is not ethical to lead in a way that creates fear. It is also less productive. When people are fearful, they are distracted and do not do their best work. By contrast, people flourish in a Circle of Safety. As ethical leaders, we need to create those circles in our organizations. We need to build organizational communities in which people support each other and help each other to perform at their highest levels.

My favorite example of an organizational community is Broetje Orchards, a faith-based family farm in Washington State founded by Ralph and Cheryl Broetje and led by them until they retired three years ago. They started the company in 1968. Things were going according to plan until 1979, when there was a sudden change in the people available to work in their orchard. One reason was that the Iran oil embargo drove up gasoline prices to the point that U.S. migrant families stayed home instead of following crops around the country. In their place, young Latino men began showing up for work.

The Broetje's understood that the migrant lifestyle was not good for the workers or their families, so they redesigned the work so that more of it was year-round, reducing the need for their workers to be migrant. Meanwhile, they literally built a community for them. They built affordable housing, a chapel, and a preschool and elementary school that provide quality education. They established scholarships so that children could go on to college. They trained their employees so that they could assume more and more responsibility and become managers and leaders of the company. They summarized it this way: they built a community that cares for the business that cares for the community.

By the time they retired, the Broetje's had over 6,000 acres of apple and cherry orchards and 2,500 employees. They were packing about 7 million boxes of apples per year. Their company was profitable, and they were donating 75% of their profits each year to their foundation, which helps people in need all over the world.

Help people find meaning at work

There is another way in which we need to help people to flourish and perform at their highest levels. We can help people to grow and find meaning at work.

As you know, the modern servant leadership movement was launched by Robert Greenleaf. In his essay on "Servant Leadership in Business," Greenleaf articulated what he called a new business ethic:

> …The new ethic, simply but quite completely stated, will be: *the work exists for the person as much as the person exists for the work.* Put another way, the business exists as much to provide meaningful work to the person as it exists to provide a product or service to the customer.[12]

Work is meaningful when it is an opportunity for people to grow and fulfill their potential. Greenleaf said:

> When the business manager who is fully committed to this ethic is asked, 'What are you in business for?' the answer may be: '*I am in the business of growing people*— people who are stronger, healthier, more autonomous, more self-reliant, more competent. Incidentally, we also make and sell at a profit things that people want to buy so we can pay for all this. We play that game hard and well and are successful by the usual standards…[13]

Helping people grow and fulfill their potential is a triple win. When people grow, their capacity grows. When their capacity grows, the capacity of the organization grows. When the capacity of the organization grows, the organization can do things better or do things it was never able to do before. Individuals benefit, the organization benefits, and those served benefit.

Greenleaf said that work should be meaningful to those who do it. How important is meaning at work? Dr. Catherine Bailey and Dr. Adrian Madden interviewed 135 people in the United Kingdom who work in a variety of occupations. They published their results in an article in the *MIT Sloan Management Review* titled "What Makes Work Meaningful—Or Meaningless." They said that the research shows that meaningfulness is more important to employees than *any other aspect of work*. It is more important to employees than pay and rewards, opportunities for promotion, or working conditions. Bailey and Madden said that meaningful work can be highly motivational, leading to improved employee performance, commitment, and satisfaction.[14]

Dr. Kenneth W. Thomas agrees that meaningful work can be highly motivational. In his book, *Intrinsic Motivation at Work: Building Energy and Commitment*, Dr. Thomas identified a sense of meaning as an important intrinsic reward.[15] He said:

> … [S]tudies show that the intrinsic rewards are consistently related to job satisfaction and to performance. These findings hold across types of organizations and for managers as well as workers. Studies have also shown that the intrinsic rewards are related to innovativeness, commitment to the organization, and reduced stress."[16]

This makes sense. If you find meaning in your work, you are likely to be intrinsically motivated, and if you are intrinsically motivated, it is likely that you will be more satisfied, productive, and committed, and will feel less stress.

Dr. Adam Grant, a professor at the Wharton School, explored this issue of motivation and performance. In his research, he separated prosocial motivation and intrinsic motivation to study their effects, if any, on each other. He defined prosocial motivation as the desire to benefit or help others— to serve a greater purpose. He said that intrinsic motivation comes from interest in the work or the enjoyment of doing the work.

Dr. Grant studied 140 workers at a telephone call center and 58 employees at a fire department. He focused on the issues of persistence, performance, and productivity. Grant concluded that employees display higher levels of persistence, performance, and productivity when they experience prosocial motivation and intrinsic motivation together.[17] In other words, when people have the desire to serve and are intrinsically motivated because they find their work to be meaningful, the result is higher levels of persistence, performance, and productivity.

Years ago, I asked about a thousand people to fill out a simple survey about their sources of meaning at work. I asked schoolteachers, lawyers, real estate agents, businesspeople, and community leaders. I did not have random samples, just samples of convenience. I wasn't conducting rigorous academic research. I just wanted to get a snapshot of where people stood when it came to sources of meaning at work. Two of the sources that were rated highest by respondents as sources of meaning were "living my values" and "doing the right thing." It seems likely to me that people will be attracted to an organization— and may stay in an organization— because it allows them to live their values and do the right thing. Those sources of meaning can be intrinsic motivators, and people who have those intrinsic motivators are likely to perform well.

Because meaning is so important, leaders should do whatever they can to create an environment in which meaning is enhanced for their colleagues. Leaders should be meaning-makers. They should find meaning in the work of others and share that meaning with them. They should also seek to redesign work when necessary to make it more meaningful. Helping colleagues and employees to find meaning can bring them greater happiness, while producing excellent results for the organization.

We have been talking about helping our colleagues and employees to flourish. A typical concern would be that doing more for our colleagues and employees will take more time and money. Yes, some of the ethical steps we need to take will require time and money. However, if we reduce turnover and increase engagement and productivity, our investment of time and money will be well worth it.

It is easy to forget the high cost of employee turnover— how much time and money it takes to recruit and train new employees, and the stress felt by those who carry the workload of the vacant position while it is being filled. The cost estimates I have seen vary from tens of thousands of dollars to twice the annual salary of the position to be filled, depending of course on the position. It would make no sense to accept the costs of turnover, while being reluctant to spend time and money on ethical steps that could greatly reduce those costs. And remember the cost of disengagement, estimated in the hundreds of billions of dollars. Compared with that cost, we can afford to do a lot more to engage our colleagues and employees and help them to flourish.

Greatest good for the greatest number

We have talked about two ethical philosophies or approaches—one based on rules, and the other focused on flourishing. Our focus has been on colleagues and employees. Let's turn now to utilitarianism, the cost-benefit approach or the calculus of pleasure and pain, usually described as the greatest good for the greatest number.

When I think of the greatest good for the greatest number, I think of all stakeholders— the people who contribute to the organization and make it possible. I believe that the only ethical position is to care about *all* of these people, and to make the impact on all stakeholders as favorable as possible. Yes, it is not always easy to balance or include the needs of different stakeholders, but ethics demands that we make the effort.

In 2020, the Greenleaf Center for Servant Leadership published a new book, *Inspiration for Servant Leaders: Lessons from Fifty Years of Research and Practice.* Dr. James Lemoine from the University at Buffalo and Dr. Terry Blum from Georgia Tech wrote an excellent chapter for the book in which they proposed this definition of servant leadership:

> Servant leadership is composed of influence behaviors, manifested humbly and morally within relationships, oriented towards continuous and meaningful improvement for all stakeholders. These stakeholders include, but are not limited to, those being led, communities, customers, and the leader, team, and organization themselves.[18]

I like the words "manifested morally" and the phrase "continuous and meaningful improvement for all stakeholders." We can engage and connect with our stakeholders and work to improve their lives in meaningful ways.

If we care about all stakeholders, we must not only care about them now, we must care about them far into the future. We need to exercise foresight on behalf of our organizations and all our stakeholders so that our mutual future will be a good one.

Robert Greenleaf called foresight the central ethic of leadership. He said that foresight is a better than average guess about *what* is going to happen *when* in the future. He said that foresight is the ‘lead’ that the leader has. The leader is out front, watching and listening, using data and intuition to identify new trends and likely events. If the leader *is not* out in front, the leader isn’t really leading— the leader is just reacting. And if the leader is just reacting, the leader may run out of options, get boxed in, and start making bad decisions— including unethical ones. That is why Greenleaf said that foresight is the central ethic of leadership.[19]

No doubt many leaders are tempted to focus on short-term results. They may look no farther into the future than their own tenure in office before retiring or moving to another position. Unfortunately, others suffer from the leader’s failure of foresight when the long-term issues become the near-term issues— or crises— years later.

The shareholder primacy myth

In the private for-profit sector, the idea of caring for all stakeholders runs up against two problems. The first is a myth called “shareholder primacy,” and the second is a misunderstanding about the mission of a for-profit business. Both the myth and the misunderstanding can lead to unethical behavior.

First, let’s talk about the myth of shareholder primacy. The shareholder primacy myth is that shareholders own the corporation, and the purpose of the corporation is to maximize shareholder wealth. This view was promoted by Milton Friedman and the Chicago School of Economics, beginning back in the 1970s. Business school students have told me that on their first day of class, they are taught that the purpose of a for-profit business is to maximize the wealth of shareholders. This myth has become very deeply embedded in American culture. Because it leads to unethical behavior, I will spend some time discussing it.

Certainly, shareholders contribute to a corporation when they buy shares to help a corporation get started or expand. But most shareholders don’t do that— they just buy shares from someone else who bought shares from someone else. They have not given any money at all to the corporation. They are investors or speculators hoping to make money when all the other stakeholders perform well.

It is all the other stakeholders who create value by contributing directly to the operation of the business on a daily basis. Employees show up every day and create the programs, products, and services of the corporation. Vendors and business partners support that work, and customers pay for it. Creditors provide financing to manage and grow the business, and communities provide essential infrastructure. All of these stakeholders make the business possible. Giving priority to only one group, such as the shareholders, is not ethical.

Oddly enough, it is possible that shareholder primacy has not been good for shareholders. Lynn Stout was a professor of corporate law at UCLA and then Cornell. In her book, *The Shareholder Value Myth*, she argued that over the decades, as more corporations championed shareholder primacy, average investor returns decreased, not increased.[20] Meanwhile, shareholder primacy has often led to bad corporate decisions, including unethical ones. Professor Stout argued that when directors and executives are relentlessly focused on maximizing shareholder wealth, bad things happen.[21]

Jacob Rose came to a similar conclusion. He conducted research on corporate directors and social responsibility. The participants in Rose's study were 34 active directors of U.S. Fortune 200 corporations, each of whom had served on an average of six boards and had an average of 20 years of management experience. The directors were divided into two groups. One group of 17 were asked to act as directors, and the second group of 17 was asked to act as partners in non-traded firms that did not have responsibilities to shareholders. Both groups were presented two cases in which loopholes in the law would allow the corporation to cut down old-growth trees and emit a toxin at a high level that would threaten human health. In both cases, the unethical decision would increase earnings per share.

What were the results? Sixteen of the 17 directors voted to cut down the old-growth trees, and 15 of the 17 directors voted to emit the toxin and threaten human health. The results were different for the directors who were asked to take the perspective of partners without shareholders. Only 10 of the 17 directors voted to cut down the old-growth trees, and only 3 of the 17 voted to emit the toxin. Rose concluded that "directors favor shareholder value over personal ethical beliefs and social good because they believe that current corporate law requires them to pursue legal courses of action that maximize shareholder value."[22] If that is what the law requires, then the law should be changed. But that is not what the law requires. Corporate law does *not* require directors to maximize shareholder value.

Remember that the reason given to justify this unethical behavior is that shareholders are the owners of the corporation, so they must be given priority.

However, as a matter of law, shareholders *do not* own the corporation. Let me explain.

The corporation is a legal person. Just as you own yourself and I own myself, the corporation owns itself. Shareholders don't own the corporation, they own shares. As shareholders, they have the right to vote for the board of directors. It is the board that exercises the ownership rights of the corporation. The board members are the trustees or guardians of the corporation, and as trustees or guardians, they make decisions on the corporation's behalf.

Furthermore, state laws allow boards to consider *all* stakeholders when making decisions. According to professor Stout, most state corporate statutes "contain provisions that reject shareholder primacy by providing that directors may serve the interests not only of shareholders but of other constituencies as well, such as employees, customers, creditors, and the local community."[23] This is known as the business judgment rule. Boards can make whatever decision they believe is in the best interests of the corporation. They could decide to give shareholders priority, but the law does not require it. Corporations are free to do what they think is in the best interests of *all* their stakeholders.

The quote that I have seen most often in support of shareholder primacy is a quote taken from the case, *Dodge v. Ford Motor Company*, decided by the Michigan State Supreme Court in 1919. Here's what happened. Henry Ford was the major shareholder of Ford Motor Company, a closely held corporation. The company had accumulated large profits. The Dodge brothers began as suppliers to Ford, and then set up their own car company, which competed with Ford. The Dodge brothers owned shares of Ford stock.

Ford had been paying both regular dividends and special dividends to shareholders. While continuing the regular dividends, Ford decided to stop the special dividends so that he could reinvest the money in the business. The Dodge brothers sued to make Ford turn over 75% of its current profits and *all* of its future profits to shareholders. They thought that if Ford had to turn over all the profits to shareholders, that would keep Ford from expanding as their competitor.

There are two reasons that this case does not support the shareholder primacy idea. First, the court basically followed the business judgement rule, not shareholder primacy. Second, the case was between a majority shareholder and minority shareholder in a closely held corporation. The idea was that majority shareholders should not oppress minority shareholders. The case was not about shareholder primacy in relation to all other stakeholders. I would also note that it is an old case, it was not a U.S. Supreme Court case, so far as I can tell it has rarely been followed by any other court during the past one hundred years, and the quote that people have taken from the case was not the basis for the court's decision.

One of the first things I learned in law school is the difference between what a court *says* and what a court *holds*. When courts write their opinions, they often review all the ideas they have considered in making their decisions. The court will say that it considered ideas or factors A, B, C, and D. These statements are known as "dicta" or sayings. Then the court makes its decision. If the holding of the court is based on C, then that is the only idea or factor that has the force of law. A, B, and D were mentioned in order to show that the court took them into account, but the court decided differently, so A, B, and D have no legal impact in that case.

In the *Dodge v. Ford Motor Company* case, the court did say that "a business corporation is organized and carried on primarily for the profit of the stockholders."[24] That is the shareholder primacy idea. But the court also said other things. For example, it quoted a legal treatise, which said that "the directors may, in the fair exercise of their discretion, invest profits to extend and develop the business, and a reasonable use of the profits to provide additional facilities for the business cannot be objected to or enjoined by the stockholders."[25] That is consistent with the business judgment rule.[26]

After reviewing various ideas, the court announced its decision, which was consistent with the business judgment rule. The court awarded less than forty percent of the money to shareholders. That allowed Ford to keep the rest of the money to build a larger factory, hire more people, increase employee wages, and reduce the cost of cars so more people could buy one. The court allowed Ford to spend sixty percent of the money to benefit other stakeholders— employees and customers. In short, the case that is cited to support shareholder primacy did not support shareholder primacy. It supported the idea that boards can make decisions that benefit other stakeholders as well.

Law professor Lynn Stout concluded:

> United States corporate law does not, and never has, required directors of public corporations to maximize either share price or shareholder wealth. To the contrary, as long as boards do not use their power to enrich themselves, the law gives them a wide range of discretion to run public corporations with

other goals in mind, including growing the firm, creating quality products, protecting employees, and serving the public interest.[27]

Corporate boards are free to serve all stakeholders. That's fortunate, because there is evidence that serving all stakeholders is good for shareholders. When all stakeholders are treated with respect and their needs are taken into account, stakeholders will be committed to the organization and the organization can optimize its performance. In a survey of servant leadership research published in 2010, Dr. Dirk Van Dierendonck said simply: "It may be that paying attention to all stakeholders is the key to long-term profits."[28]

In 2012, Dr. Suzanne Peterson, Dr. Benjamin Galvin, and Dr. Donald Lange published an article in the journal *Personnel Psychology*. Their study was based on interviews of 126 chief executive officers in technology organizations in Silicon Valley. The researchers concluded that CEOs could improve their firms' performance if they adopted more inclusive forms of leadership, such as servant leadership, that take into account a broader number of stakeholders and that are more other-focused.[29]

In 2021, Dr. James Lemoine, Dr. Nathan Eva, Dr. Jeremy Meuser, and Patricia Falotico published an article in *Business Horizons* in which they examined the stakeholder approach to leadership. They drew on more than 200 peer-reviewed articles as well as a number of case studies. They concluded that a broad stakeholder focus that includes employees, customers, suppliers, and communities, not just shareholders, is the optimal path for successful business performance.[30] This is important research that can be the basis for an ethical resolution to the shareholder primacy problem. It is clear that the best way to serve shareholders is to do the right thing and serve *all* stakeholders.[31]

I believe that we should abandon shareholder primacy for five reasons: (1) it is not ethical; (2) it is not required by law; (3) shareholder primacy has not been especially good for shareholders, (4) abandoning shareholder primacy and focusing on all stakeholders *is* good for shareholders; and (5) abandoning shareholder primacy and focusing on all stakeholders will improve business performance. Shareholder primacy is a widely accepted paradigm, and paradigms are difficult to change, but we have plenty of reasons to make the change.

There is some hope that more businesses are becoming interested in breaking away from shareholder primacy. There was a hopeful sign in August 2019, when the national Business Roundtable, a group of CEO's from major U.S.

corporations, issued a statement in which they dropped the notion that corporations function first and foremost to serve their shareholders. They said that their new goals are to invest in employees, deliver value to customers, deal ethically with suppliers, and support communities. The statement was signed by 181 CEOs.[32]

Another hopeful sign is the B Corporation, or benefit corporation. B Corporations make it clear in their corporate charters that they are there to serve all stakeholders, not just shareholders." The triple bottom line for a B Corporation is people, planet, and profit.[33]

Misunderstanding the mission of for-profit corporations

When it comes to caring about all stakeholders, there is another problem in the private sector, and that is a misunderstanding about the mission of for-profit corporations.

Back in the early 1800s, state governments began giving corporations certain privileges, such as longevity and liability protection, that are not available to sole proprietors. They gave these privileges to corporations so that corporations could fulfill public purposes.[34]

Corporations are still being given these special privileges so that they can serve the public good. Nowadays, however, businesses often say that their purpose is to make money. I don't agree. If the purpose of a business is to make money, then the purpose of a government is to collect taxes, the purpose of a university is to collect tuition, and the purpose of a nonprofit is to collect donations and fees. They all need to get resources, but getting resources is a need, not a purpose. Organizations don't exist to make money, they make money so they can continue to exist. They make money so that they can continue to serve their customers and their communities. That is their purpose.

My favorite example during the pandemic is the Canlis Restaurant in Seattle. It is a high-end, third-generation, family-owned restaurant, run today by two brothers. On March 16, 2020, the restaurant closed due to the pandemic. Rather than focusing on what they could no longer do, the two brothers focused on the resources they still had, and ways that they could keep their employees at work. During 2020, they moved through 11 unique business models.

The first week, they set up a drive-through burger stand and sold 7,200 burgers. Then they started a delivery service that served a total of 53,447 guests.

Then they brought in sand and converted their parking lot into an open-air crab shack, with tables ten feet apart, and a lifeguard on duty checking the temperatures of guests. Then they began serving the community in new ways, such as livestreaming a nightly bingo game that was viewed by 2,500 people. Later they created an educational program called "Canlis Community College," during which they taught cooking and led exercise classes. A total of 12,000 people participated. The restaurant also did something that I find breathtaking: They raised $275,000 for local and national charities.[35]

Mark Canlis, one of the owners, said that the pandemic caused them to ask: What are we here for? He said that they were there to serve their guests with loving care. That was their mission. During the pandemic, they were not making much money, but that was not their company's mission. He said that a pandemic was not a time for making money, but it was still a time for serving people. They could still fulfill their mission. They could still serve their customers and the larger community.

I believe that the purpose of every organization is to serve people—customers, clients, patients, members, students, or citizens. The problem with saying that the purpose of a business is to make money is that it tends to justify using any means to achieve that end. People may feel justified in doing things that are not ethical in order to meet their bottom-line goals. That is simply wrong. If a business cannot operate ethically, it should not operate at all.

Some businesspeople seem to bifurcate their morality. They act as though there is one set of moral rules for individuals, and a different set of rules for corporations. For example, a businessperson who wouldn't put poison in his neighbor's drinking water will justify dumping factory waste into a river, if that is necessary to make a profit. A businessperson who wouldn't lie to a friend will justify lying to customers if that is necessary to meet bottom line goals.

This is simply wrong. Ethics and morality apply to individuals whether they are acting alone or in a group. Joining together with others to form a corporation does not change what is right and wrong. It does not give anyone in business a license to be unethical. To the contrary, because corporations can have a large impact on many other people, the ethical standards of a corporation should be *higher*, not lower, than the commonly accepted standards for individuals.[36]

Over the years I have come across professors in business schools who teach that trying to be ethical will only slow down or disadvantage a business. They tell students to stay within the law, if possible, but don't worry about ethics. Students are taught to make cost-benefit analyses, which include the cost of being sued when they hurt people. For example, a car company may know that the gas tank on their car will explode during a collision, harming or killing people, but the company goes ahead and manufactures the car. The company just puts money in the budget to pay off the legal claims of those who will be injured or the families of those who will die. They estimate that legal claims will cost less than re-designing the car to make it safer. This is simply wrong. Nobody gets a free pass to hurt anybody they want, just because they are in business and they have bottom-line goals.

I believe that morality and morale are connected. When morality is high, morale is high. People are proud to work for their organization. They are committed, inspired, engaged, and energized. They contribute their best work. This can be true even when doing the right thing hurts the bottom line. That's when people understand that they are part of a business that has a bigger mission than making money. That mission is to serve people, and to serve them well.

Conclusion

In conclusion, we don't know what the new world of work will look like, but a major leadership challenge will be to engage and connect with all stakeholders. To engage and connect with our colleagues and employees, we should do more than the law requires, and we should support them beyond the workplace. We should improve working conditions, build strong organizational communities, and help them to find meaning at work. To engage and connect with the rest of our stakeholders, we should commit to the mutual improvement of all of them, not just one group of them. Finally, we should refocus on the mission of our organizations, which is to serve others by providing programs, products, and services that meet their needs. Expanding our ethical practices in these ways will not only be good for our stakeholders, it will also be good for organizational results.

To put it simply: Ethics is about how we treat people. As leaders in the new world of work, we can— and should— treat people better.

Notes

[1] Fred Kofman, *The Meaning Revolution: The Power of Transcendent Leadership* (New York: Currency, Crown Publishing Group, 2018), 38.

[2] For example, Joseph L. Badaracco, Jr., *Leading Quietly: An Unorthodox Guide to Doing the Right Thing* (Boston, Massachusetts: Harvard Business School Press, 2002) and Richard Kyte, *Ethical Business: Cultivating the Good in Organizational Culture* (Winona, Minnesota: Anselm Academic, 2016).

[3] See, for example, Kyte, *Ethical Business*, Chapter 1, "Growing Ethical Cultures," 13-40.

[4] James M. Kouzes and Barry Z. Posner, *The Leadership Challenge*, 4th ed. (San Francisco: John Wiley & Sons, 2007), 27-33.

[5] Peter G. Northouse, *Leadership: Theory and Practice*, 6th ed. (Los Angeles: Sage Publications, Inc., 2013), 427, 430-437.

[6] "'The Great Resignation': Who Is Quitting and Which Job Sectors Are Suffering Most?" https://www.gobankingrates.com/money/economy/the-great-resignation-who-is-quitting-which-jobs-suffering-most, accessed on March 10, 2022.

[7] Kristin Barry, "Recruiting Women Takes More than Just Competitive Pay," Gallup, March 2, 2022 (www.gallup.com/workplace/390275/recruiting-women-takes-more-than-competitive-pay.aspx?)

[8] Simon Sinek, "Understanding Empathy," 2017, YouTube, https://www.youtube.com/watch?v=pi86Nr9Mdms

[9] Joseph M. Patrnchak, *The Engaged Enterprise: A Field Guide for the Servant-Leader* (Atlanta, Georgia: The Greenleaf Center for Servant Leadership, 2016), 89-97, 124.

[10] L&R Pallet Services, "In the People Business," https://faithandco.spu.edu/film-detail/in-the-people-business/.

[11] Sinek says: "When we believe that those inside our group, those inside the Circle, will look out for us, it creates an environment for the free exchange of information and effective communication. This is fundamental to driving innovation, preventing

problems from escalating, and making organizations better equipped to defend themselves from the outside dangers and to seize the opportunities." Simon Sinek, *Leaders Eat Last: Why Some Teams Pull Together and Others Don't* (New York: Portfolio/Penguin, 2014), 24.

[12] Robert K. Greenleaf, "Servant Leadership in Business," in *Servant Leadership: A Journey into the Nature of Legitimate Power and Greatness* (New York: Paulist Press, 1977), 142.

[13] Id., 146-147.

[14] Catherine Bailey and Adrian Madden, "What Makes Work Meaningful—Or Meaningless?" *MIT Sloan Management Review*, Summer 2016, 53.

[15] Kenneth W. Thomas, *Intrinsic Motivation at Work: Building Energy and Commitment* (San Francisco: Berrett-Koehler Publishers, Inc., 2002), 44.

[16] Id., 46.

[17] Adam M. Grant, "Does Intrinsic Motivation Fuel the Prosocial Fire? Motivational Synergy in Predicting Persistence, Performance, and Productivity." *Journal of Applied Psychology*, Vol. 93, No. 1, 2008, 48-58.

[18] G. James Lemoine and Terry C. Blum, Chapter 1, "Leadership and Servant Leadership: Understanding Both by Bridging the Past and Present," in John C. Burkhardt and Jessica Y. Joslin, eds., *Inspiration for Servant-Leaders: Lessons from Fifty Years of Research and Practice* (South Orange, New Jersey: Greenleaf Center for Servant Leadership, 2020), 28.

[19] Greenleaf wrote: "The failure (or refusal) of a leader to foresee may be viewed as an *ethical* failure, because a serious ethical compromise today (when the usual judgment on ethical inadequacy is made) is sometimes the result of a failure to make the effort at an earlier date to foresee today's events and take the right actions when there was freedom for initiative to act. The action which society labels 'unethical' in the present moment is often really one of no choice. By this standard a lot of guilty people are walking around with an air of innocence that they would not have if society were able always to pin the label 'unethical' on the failure to foresee and the consequent failure to act constructively when there was freedom to act." Robert K. Greenleaf, *Servant Leadership: A Journey into the Nature of Legitimate Power and Greatness*, 26.

[20] Lynn Stout, *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public* (San Francisco: Berrett-Koehler Publishers, Inc. 2012), 53. Stout points out that shareholder primacy assumes that shareholders are a single group whose members all have the same values and goals. Such is not the case. For example, some shareholders may be interested in short-term results, while others are interested in the long-term.

[21] Law professor Lynn Stout wrote: "In the quest to 'unlock shareholder value' they [the directors] sell key assets, fire loyal employees, and ruthlessly squeeze the workforce that remains; cut back on product support, customer assistance, and research and development; delay replacing outworn, outmoded, and unsafe equipment; shower CEOs with stock options and expensive pay packages to 'incentivize' them; drain cash reserves to pay large dividends and repurchase company shares, leveraging firms until they teeter on the brink of insolvency; and lobby regulators and Congress to change the law so they can chase short-term profits speculating in credit default swaps and other high-risk financial derivatives. They do these things even though many individual directors and executives feel uneasy about such strategies, intuiting that a single-minded focus on share price may not serve the interests of society, the company, or shareholders themselves." Lynn Stout, *The Shareholder Value Myth*, 3.

[22] Jacob Rose, "Corporate Directors and Social Responsibility: Ethics versus Shareholder Value," *Journal of Business Ethics*, 73:319-331 (2007), 320.

[23] Lynn Stout, *The Shareholder Value Myth*, 28.

[24] Dodge v. Ford Motor Co., 170 N.W. 668 (Mich. 1919).

[25] Id.

[26] Law professor Stout said: "….[C]ourts refuse to hold directors of public corporations legally accountable for failing to maximize shareholder wealth… The reason can be found in an important law doctrine called the 'business judgment rule.' In brief, the business judgment rule holds that, so long as a board of directors is not tainted by personal conflicts of interest and makes a reasonable effort to become informed, courts will not second-guess the board's decisions about what is best for the company— even when those decisions seem to harm shareholder value. Stout, *The Shareholder Value Myth*, 29. See also, G. Gordon Smith, "The Shareholder Primacy Norm," *The Journal of Corporation Law*, Vol. 23, No. 2

[Winter 1998], 277-323. At page 286, Smith said: "… the universal application of the business judgment rule makes the shareholder primacy norm virtually unenforceable against public corporations' managers… It is nearly an iron-clad shield for directors of public corporations."

[27] Stout, *The Shareholder Value Myth*, 4.

[28] Dirk Van Dierendonck, "Servant Leadership: A Review and Synthesis," *Journal of Management,* 37:1228 (2011), 1228.

[29] Suzanne J. Peterson, Benjamin M. Galvin, and Donald Lange, "CEO Servant Leadership: Exploring Executive Characteristics and Firm Performance," *Personnel Psychology* 65, 565-596 (2012).

[30] G. James Lemoine, Nathan Eva, Jeremy D. Meuser, and Patricia Falotico, "Organizational performance with a broader focus: The case for a stakeholder approach to leadership," *Business Horizons,* Vol. 64, Issue 4, July-August 2021, 401-413.

[31] This research should help Board members who want to serve all stakeholders, but feel that SEC regulations require them to give priority to shareholders instead. Board members can reference the research that demonstrates that the best way to maximize shareholder wealth is to serve all stakeholders.

[32] The importance of serving all stakeholders has been advocated for decades by another business round table, the Caux Round Table. The Caux Round Table is an international network of experienced business leaders whose mission is to put moral capitalism to work by ensuring that business contributes to greater prosperity, sustainability, and fairness. Business leaders from the United States, Europe, and Japan began discussions in the 1980s about ethical business practices. The Caux Round Table's "Principles for Business" are a comprehensive set of ethical norms for businesses that operate internationally and across different cultures. The first of the seven principles is: "Respect stakeholders beyond shareholders. A responsible business has responsibilities beyond its investors and managers." The Caux Round Table has also established stakeholder management guidelines. More information is available at www.cauxroundtable.org.

[33] According to one website, "Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose. B Corps are

accelerating a global culture shift to redefine success in business and build a more inclusive and sustainable economy." Information about B Corporations is available at https://www.cultivatingcapital.com/b-corporation/ and https://www.bcorporation.net/en-us/.

[34] Back in the early 1800s, state governments initially established corporations by individual legislative acts. Later, general incorporation statutes were passed, but incorporation still required state government approval. The public purposes of corporations were obvious in the early 1800s, when many of the first corporations engaged in public works such as building turnpikes, bridges and canals, or operating banks, or setting up fire brigades or water companies. State governments maintained close control to make sure that the public purpose was being fulfilled. Corporations could be terminated by state governments if they exceeded their charters, caused public harm, or acted illegally. See Chapter 2, "The Public Purpose of Corporations," in Kent M. Keith, *Servant Leadership in the Boardroom: Fulfilling the Public Trust* (Westfield, Indiana: The Greenleaf Center for Servant Leadership, 2011), 6-13.

[35] "The Game's Not Up," https://faithandco.spu.edu/film-detail/the-games-not-up/.

[36] See, for example, the conversation between the fictional characters in Chapter Three, "Group Morality and the Bifurcated Moral Code," in Kent M. Keith, *Morality and Morale: A Business Tale* (Honolulu: Terrace Press, 2012), 13-22.

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Note about the Author

During his career in Hawaii, Dr. Kent M. Keith served as an attorney, state government official, high tech park developer, YMCA executive, and President of two private universities. He also served as CEO of the Greenleaf Center for Servant Leadership, based in Indiana, and CEO of the Greenleaf Centre for Servant Leadership (Asia), based in Singapore. He earned a B.A. from Harvard University, an M.A. from Oxford University, a Certificate in Japanese from Waseda University in Tokyo, a J.D. from the University of Hawaii, and an Ed.D. from the University of Southern California. He is a Rhodes Scholar.