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# LEADERSHIP ETHICS

## ETHICS: THE LEADERSHIP FACTOR

Jim Small, CPA, MBA, CGMA

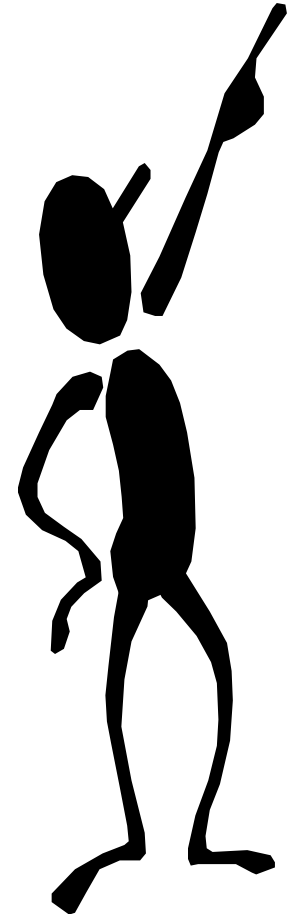
May 2018

Tulsa Chapter of OSCPA

**DRYSDALES<sup>™</sup>**  
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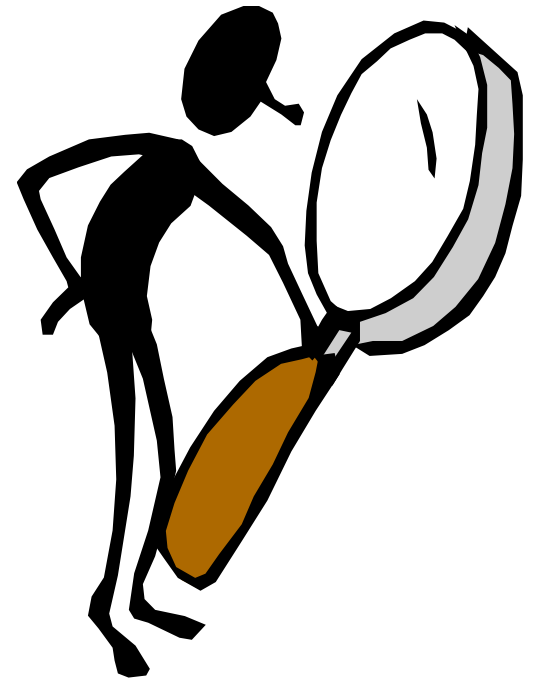
# WHAT WE WILL LEARN

- **What is a leader?**
- **What do leaders do?**
- **Are you a leader?**
- **What are ethics?**
- **Why do we need ethics?**
- **Should leaders be held to higher ethical standards than followers?**
- **Do you have high ethical values?**



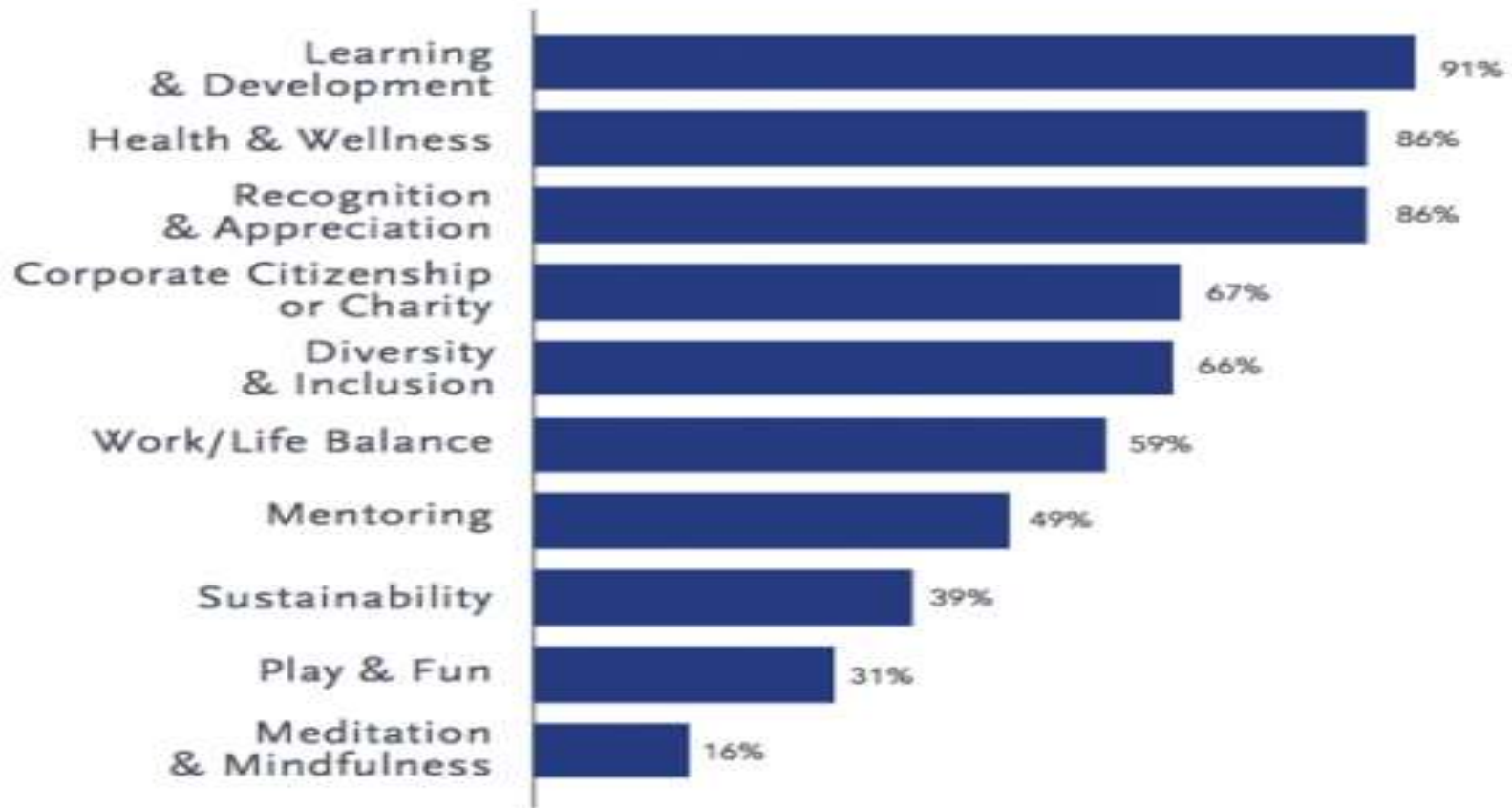
# LEADER DEFINITIONS

- **The office or position of a leader (a title)**
- **Capacity to lead (a skill)**
- **To direct on a course**
- **To guide someone or something along a way**
- **To compel or induce others to action (influence)**



# WINNING CULTURES

## TYPE OF PROGRAMS PREVALENT IN ORGANIZATIONS THAT RECEIVE WORKPLACE AWARDS



Note: n = 245 (received award)

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# WINNING WAYS

- #1 Strong commitment from CEO - Company ***culture flows down*** from the top
- #2 Attitude and behavior of leadership is key variable - Adopt and model behavior
- #3 High level of trust among employees and management
- #4 Managers are ***mentors*** and communicators – not “bosses”

# LEADERSHIP TYPES

- **Moral Leadership** - Builds trust from a foundation of personal integrity
- **Ethical Leadership** - Has integrity and appears to others as “good” and “right” by moral standards
- **Integrity**- In leadership is honesty, credibility and consistency in putting values into action
- **Servant Leadership** - Means serving others, helping them use their talents to help organizations best serve society
- **Empowerment** - Gives employees job freedom and power to influence affairs in the organization

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# MORAL LEADERSHIP

- Leadership is an influence process, both visible and invisible.
- An interaction measured by ethical values.
- An alignment of moral awareness, character and conduct that demonstrates balanced judgment, sustained moral development, and systems for moral decision making.

# FOUR FUNCTIONS OF MANAGEMENT





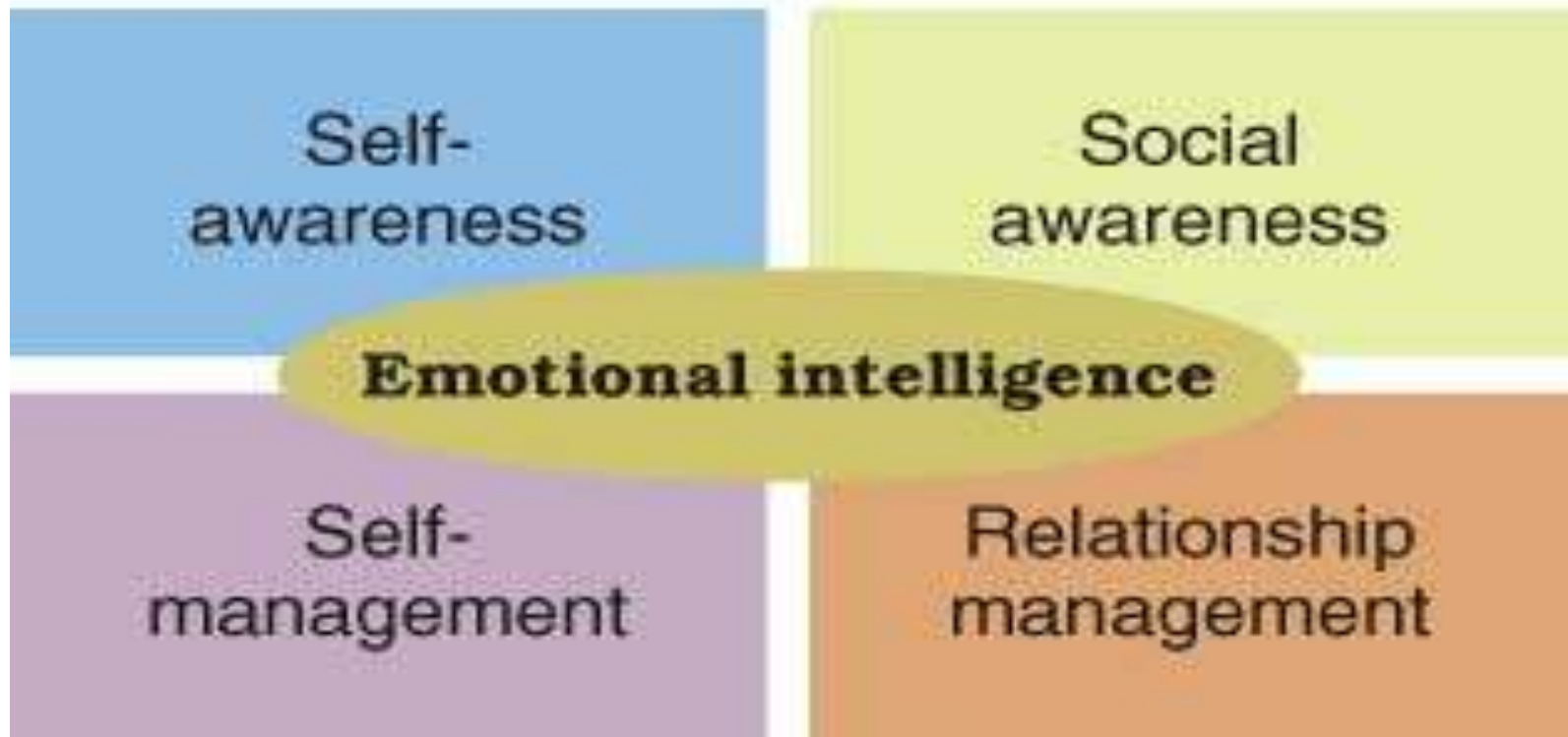
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# VIRTUES THAT BUILD LEADERSHIP & CHARACTER

- 1. INTELLECTUAL VIRTUES**
- 2. MORAL VIRTUES**
- 3. SOCIAL VIRTUES**
- 4. EMOTIONAL VIRTUES**
- 5. POLITICAL VIRTUES**

# Emotional Intelligence

## Four dimensions of emotionally intelligent leadership



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# TRAITS OF AUTHENTIC PEOPLE

- **Their words and actions are congruent**
- **They are transparent honest and assertive**
- **They reciprocate in relationships**
- **They are open-minded**
- **They make others feel at ease**
- **They are not superficial**
- **They are not influenced by superficial or material objects**

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# TRAITS OF AUTHENTIC PEOPLE

- **They take personal responsibility**
- **They cultivate meaningful relationships**
- **They are not driven by ego**
- **They have strong character**
- **They live in the moment and create their own paths (show gratitude for what they have)**

# TYPES OF POWER

- **Power** - the ability to get others to do what you want them to do
- **Reward Power** - The capacity to offer something of value as a means of influencing other people
- **Coercive Power** - The capacity to punish or withhold positive outcomes as a means of influencing other people.
- **Legitimate Power** - The capacity to influence other people by virtue of formal authority or the rights of office.
- **Expert Power** - The capacity to influence other people by virtue of specialized knowledge.
- **Referent Power** - The capacity to influence other people because of their desire to identify personally with you

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# LIFE IS OUR BEST TEACHER

- **OUR PAST IS THE LESSON**
- **OUR PRESENT IS THE EXAM**
- **OUR FUTURE WILL BE THE GRADES WE RECEIVE**



**JIM STOVALL**

# WHAT DO LEADERS DO?

1. CHALLENGE THE PROCESS
2. INSPIRE A SHARED VISION
3. ENABLE OTHERS TO ACT
4. MODEL THE WAY
5. ENCOURAGE THE HEART



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# WHAT IS A LEADER?

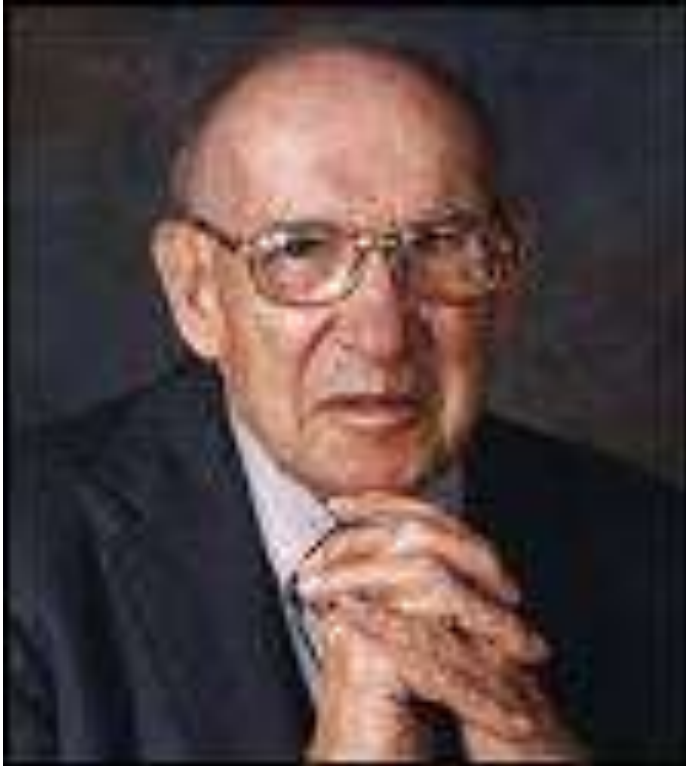


**All leadership is  
influence**

**– John C. Maxwell**



# WHAT IS A LEADER?



**Leadership is lifting a person's vision to higher sights, the raising of a persons performance to a higher standard**

**– Peter Drucker**

# WHAT IS A LEADER?



**First, define reality;**

**Last, say thank you;**

**In between the leader  
is a servant**

**– Max DePree**

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# OBSERVATIONS ON LEADERS

- Leadership is a function of personality
- The Leader's identity includes his/her hopes, dreams and values
- Others view a Leader through their performance and reputation
- Leaders should be judged by their ability to build and maintain a high performing team

# QUALITIES of a LEADER

- **Drive** – high energy, initiative, tenacious
- **Self-confidence** – trust themselves and their abilities
- **Creativity** – original in their thinking



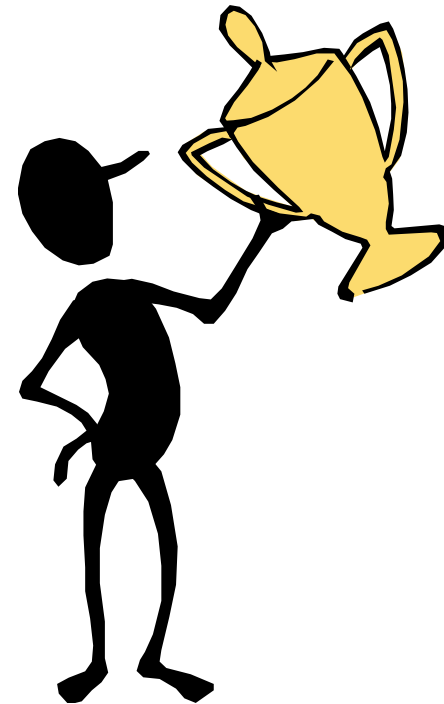
# QUALITIES of a LEADER

- **Cognitive ability** – integrate and interpret information
- **Business knowledge** – know their industry and its technical foundations
- **Motivation** – enjoy influencing others to achieve goals



# QUALITIES of a LEADER

- **Flexibility** – adapt to fit the needs of followers and the demands of the situation
- **Honesty and integrity** – trustworthy, predictable and dependable



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# FUTURE LEADERSHIP

- Value in the new economy will be based on knowledge not raw materials
- Future leaders will create value by enhancing the skills, productivity and capabilities of people
- The future work ethic must embrace character and knowledge enhanced by technology

# MAJOR LEADERSHIP TRENDS

- **PUBLIC OPINION HAS CHANGED**
- **REGULATIONS ARE STRICTER THAN EVER**
- **EMERGING MARKETS ADD COMPLEXITY**
- **SOCIAL MEDIA INCREASES EXPOSURE...**
- **...AND GIVES A VOICE TO WHISTLEBLOWERS**



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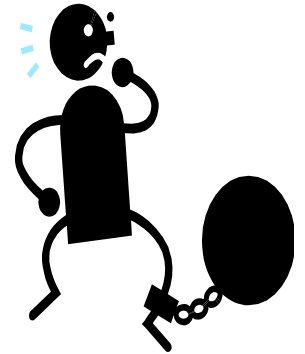
# WHAT DERAILS LEADERS?

- **They were steered by their ego**
- **They became discouraged**
- **They lose focus**
- **Character flaws overcome them**
- **They stop learning**
- **They try to do too much**
- **They don't practice personal renewal**

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# DERAILED LEADERS

- **Bernie Ebbers – WorldCom**
- **Scott Sullivan – WorldCom**
- **Kenneth Lay – Enron**
- **Jeff Skilling - Enron**
- **Andrew Fastow – Enron**
- **John Rigas - Adelphia**
- **Dennis Kozlowski – Tyco**



# DERAILED LEADERS



PHOTO © CHRIS HONDROS/GETTY IMAGES

**Bernie Ebbers, 63,  
former CEO of  
Worldcom, sentenced to  
25 years in prison for  
his part in an \$11 Billion  
fraud**

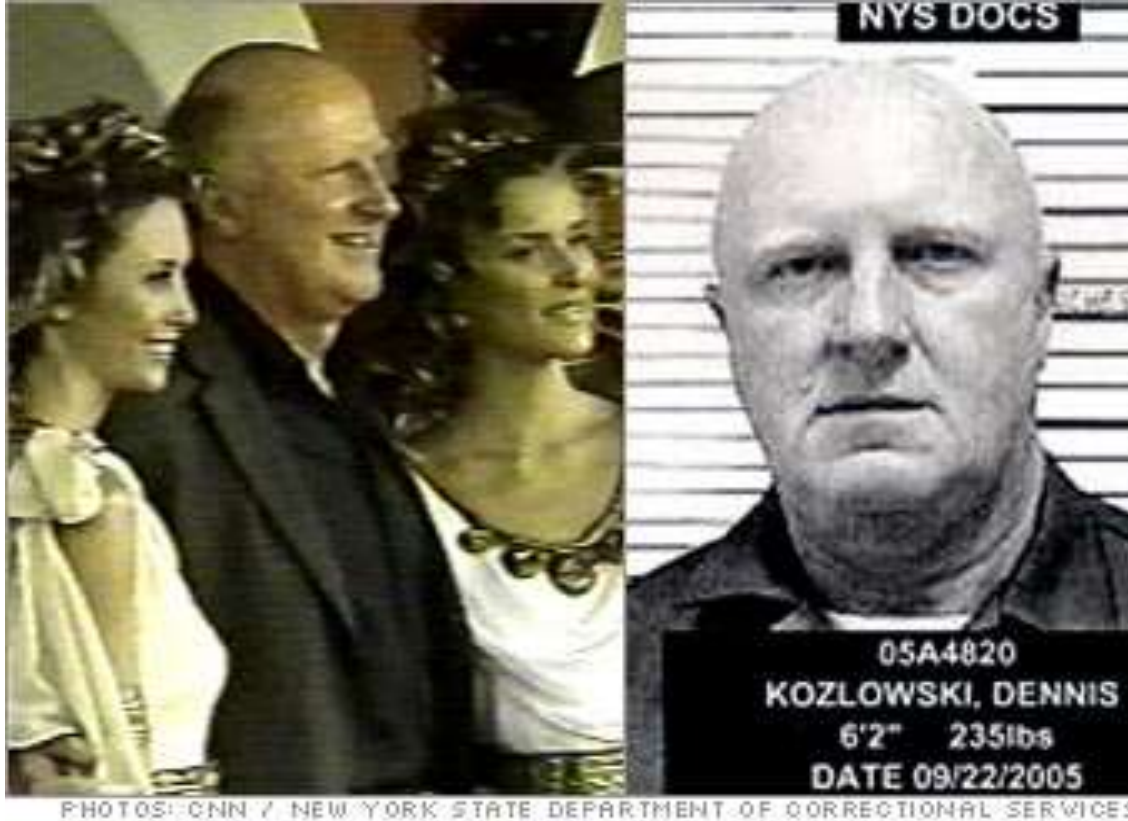
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# DERAILED LEADERS



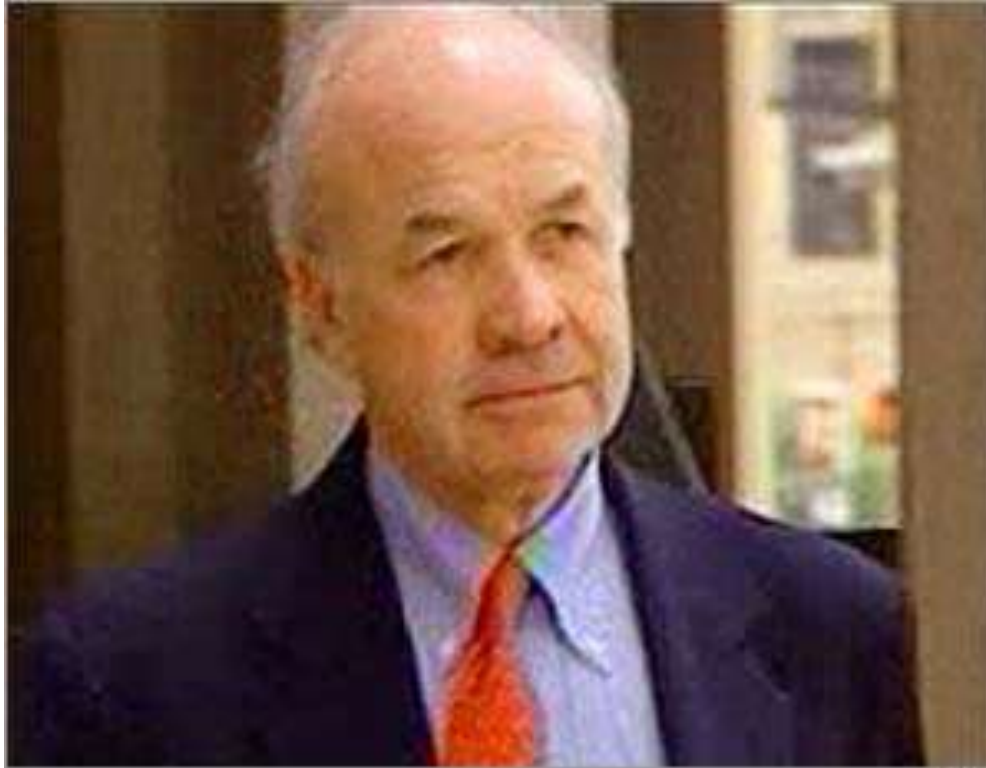
**Scott Sullivan, 44,  
former CFO of  
WorldCom pleaded  
guilty to criminal  
charges and is  
serving five years**

# DERAILED LEADERS



**Dennis Koslowski, 59, former CEO of Tyco, sentenced to 25 years for grand larceny**

# DERAILED LEADERS



CNN

**Ken Lay, died  
July 2006,  
former CEO  
and chairman  
of Enron  
found guilty  
of conspiracy**

# DERAILED LEADERS



**Jeff Skilling,  
52, former  
President,  
COO and CEO  
of Enron found  
guilty and  
sentenced to  
24 years in  
prison**



# DERAILED LEADERS



CNN

**Andrew Fastow, 35, Former Enron CFO, agreed to a guilty plea and will serve 6 years in prison**



# DERAILED LEADERS



PHOTO: STEPHEN OHERNIN/GETTY IMAGES

**John Rigas, 80, founder and former CEO of Adelphia Communications sentenced to 15 years for fraud. His son, former CFO, received a 20 year term**

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# DERAILED LEADERS



PHOTO: DAVID TURNLEY/GETTY IMAGES

**Martha (it's a good thing) Stewart, founder and former CEO of Omnimedia served 5 months in prison and 6 months of house arrest for lying to investigators and insider trading.**

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# MISLED LEADERS?



**Joseph Berardino,  
former CEO at Arthur  
Andersen led the \$9.3  
billion firm with 85,000  
employees during its  
collapse following the  
Enron scandal**

# MISLED LEADERS?



**Richard Scrushy,  
52, CEO of  
HealthSouth was  
acquitted on all  
Sarbox charges  
in 2005**

# ARE YOU A LEADER?

- **Do you positively influence others?**
- **Do others follow you because of your personal qualities, your vision?**
- **Do you build teams and foster collaboration?**
- **Do you continuously learn new skills?**
- **Do you strengthen others and teach them new skills?**
- **Do you have strong personal integrity?**

# WHAT ARE ETHICS?

- **Ethics is a field of human inquiry into and speculation about why human beings do what they do and its foundation in “right” and “wrong” conduct.**
- **Principles of Morality?**
- **Codes of Conduct?**
- **Personal Perceptions?**



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# ETHICS IN HISTORY

- **Discussions of Ethics began about 4,000 years ago**
- **Major Epochs of Western History:**
  - **Ancient – 5000 B.C. to 500 A.D.**
  - **Medieval – 500 A.D. to 1500 A.D.**
  - **Modern – 1500 A.D. to 1914**
  - **Contemporary Half Epoch – Since 1914**

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# ARISTOTLE



**Wrote the Nicomachean Ethics in the 4 century B.C. that emphasized the importance of judgment, virtue and character**



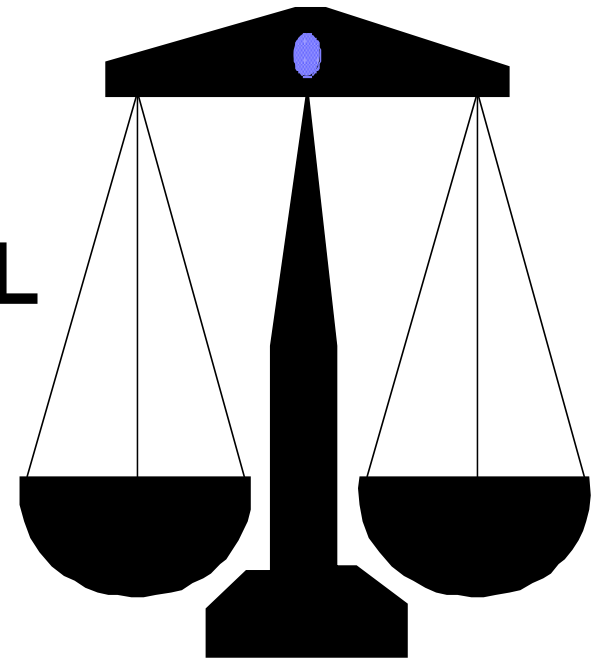
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# DEVELOPMENT OF ETHICS

- **Ethics** is just one Field of Philosophy
- **Normative Ethics** is the area applied to the practical world – what is right and good?
- **Professional Ethics** is a specific sub-category applied to a trade, profession or group based on their adopted code of conduct

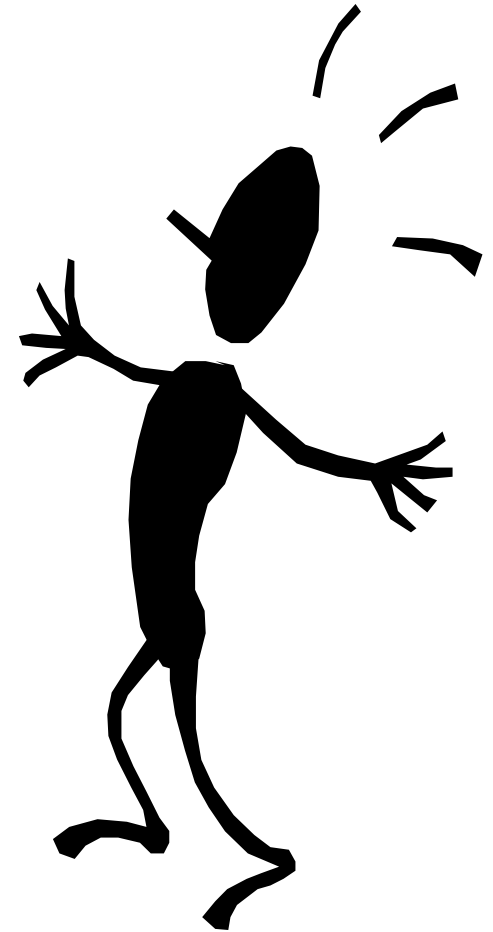
# MODELS of DECISION MAKING

- **GOLDEN RULE:** Doing Good
- **ABSOLUTE MORAL DUTY:**  
Principles
- **VALUES & PROFESSIONAL CODES**
- **UTILITARIANISM:**  
Consequences



# GOLDEN RULE

- **A good person is concerned with and responsible for the well-being of others**
- **Ethical people seek to help others and avoid causing them harm**
- **It is a broad general application useable in many personal ethical dilemmas**



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# GOLDEN RULE LIMITS

- **We cannot give equally to all affected by our decisions**
- **We must often prioritize certain interests over others**
- **Difficult to apply in complex business situations with value conflicts and adverse impacts on multiple parties (employees, shareholders and customers)**

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# MORAL OBLIGATIONS

- **Ethical obligations are principles of right conduct – “higher truths”**
- **Unconditional, no exceptions, no excuses**
- **Absolute principles are not affected by consequences**

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# MORAL OBLIGATION LIMITATIONS

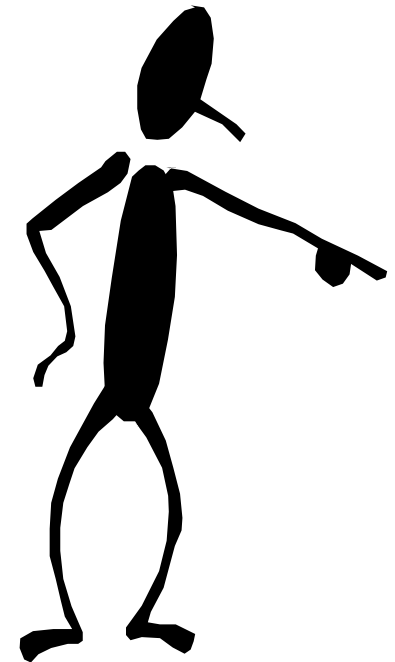
- **Fails to resolve an issue when faced with two acceptable but conflicting ethical values (Right vs. Right)**
- **Example: Would you lie to protect a confidence?**

# PROFESSIONAL CODES

- Professional groups often adopt codes of conduct to define the ethical behavior of their members

These codes are designed to:

- Protect the general public
- Protect other members of the professional group
- Set minimum standards of service to clients



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# UTILITARIANISM

- **The ethical merit of each act is determined by the results**
- **An ethical person evaluates competing values in terms of likely and intended results**
- **Actions are right when they produce the best benefit and prevent harm**



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# UTILITARIANISM

## LIMITS

- **Determining the greatest good for the greatest number is not easily determined**
- **This can produce “situational ethics” where ethics interpretations are accepted for the current situation**

# Organization Values

## Non-ethical vs. Ethical

- Build reputation
- Getting a job done
- Satisfy your pride
- Win
- Avoid shame of failure
- Increase profit
- Peer approval
- Protect ourselves or loved ones
- Be honest
- Keep promises
- Safeguard confidences
- Avoid conflicts of interest
- Be accountable for your actions
- Care for others
- Professionalism

# COMMON ETHICAL ISSUES IN THE WORKPLACE

- **People – fairness in hiring, firing, evaluations, compensation**
- **Conflict of interest – compromised professional objectivity**
- **Customer confidence – actions that harm customers' privacy or safety**
- **Inappropriate use of corporate resources – taking company time, property or reputation**

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# ETHICAL QUESTIONS

- **Is it legal?** – would you be violating criminal or civil laws?
- **Is it balanced?** – is it fair to all parties in both the short and long-term?
- **Is it right?** – how do you feel in your gut, are you proud of your decision

# AICPA DISCIPLINARY ACTIONS

CALENDAR YEARS	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total cases at beginning of year	982	912	734	827	819
Cases opened during the year	703	483	708	437	768
Cases completed during the year (below)	<u>-583</u>	<u>-413</u>	<u>-530</u>	<u>-530</u>	<u>-760</u>
Total cases at end of year	<u>1102</u>	<u>982</u>	<u>912</u>	<u>734</u>	<u>827</u>
<u>Summary of completed cases:</u>					
Expelled or suspended	162	75	113	90	88
Admonished	33	25	66	76	161
Corrective action taken	149	120	113	167	244
No violation/dismissed	43	43	81	69	36
No further action	152	100	100	85	182
Subsequent monitoring completed	30	33	32	30	32
Other	<u>14</u>	<u>17</u>	<u>25</u>	<u>13</u>	<u>17</u>
Cases completed during the year	<u>583</u>	<u>413</u>	<u>530</u>	<u>530</u>	<u>760</u>

# LEADERSHIP & ETHICS

- **Now we get to combine the two principles**
- **Leaders have a profound impact on the ethical values of their followers (employees)**
- **Most of the financial statement accounting fraud has been caused by leaders with flawed ethical values**

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# THE LEADER'S ETHICS

- **A leader has moral responsibility to lead his/her followers (employees)**
- **The leader's influence sets the pattern, marks the pace, guides the crew**
- **The leader should build a robust ethics infrastructure in their organization**
- **The leader should publicly commit to running an ethical organization**

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# THE LEADER'S ETHICS

- **Talk to followers (employees) at all levels about your ethical values**
- **Chose to live your corporate ethical values – set an example**
- **Keep communications open**
- **Ethical practices have always been a critical factor in an organization's success and long-term profitability**



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# DECLINE OF ETHICS

- **Disclosures leading to the #metoo movement have put a spotlight on managers, workers and businesses**
- **Top management antics have given workers excuses for their own unethical behavior**
- **Modern morals are drifting away from the Biblical influences of past decades**
- **Worker and management loyalty has declined in last several decades**

# ENHANCE YOUR BUSINESS ETHICS

- **Teach, model and enforce ethical practices in your organization at the highest levels of management**
- **Establish your purpose and mission and include ethical values and remind employees of these values**



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# 2013 NBES STUDY

- **The number of ethics and compliance programs is on the rise**
- **An enterprise-wide ethical culture dramatically reduces misconduct**
- **Ethical misconduct is in a decline likely due to ethics and compliance programs**
- **Much of the observed misconduct is at the management level**

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# 2013 NBES STUDY

- **Screen for personal character when hiring**
- **Educate managers and employees about private behavior in the age of social media**
- **Encourage leaders to share credit for success and seek feedback from employees**
- **Annually review business objectives and policies to ensure that they promote ethical performance**

# ETHICAL LEADERS?

- **BILLY GRAHAM**
- **GEORGE W. BUSH**
- **BARACK OBAMA**
- **BILL CLINTON**
- **STEVE JOBS**
- **BILL GATES**
- **MARTIN LUTHER KING**
- **VINCE LOMBARDI**



# MARK TWAIN WISDOM



**Always do right – This  
will gratify some and  
astonish the rest**

**If you tell the truth, you  
don't have to  
remember anything**

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# CLOSING SUMMARY

- **As professionals, you are leaders**
- **You influence your clients, your employees and the friends and family whose lives you touch**
- **As such, you will be held to a higher standard and be subject to public scrutiny – use your ethics!**

# REFERENCE SOURCES

- **The Leadership Challenge** – James M. Kouzes & Barry Z. Posner
- **Management Challenges for the 21<sup>st</sup> Century** – Peter F. Drucker
- **The 21 Indispensable Qualities of a Leader** – John C. Maxwell
- **Learning to Lead** – Fred Smith
- **How to Win Friends and Influence People** – Dale Carnegie
- **[www.ethics.org](http://www.ethics.org)**



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# QUESTIONS or COMMENTS?

- I would like to entertain your questions
- I would also like your comments on the topic as time allows
- Thank you for your time and attention
- My thanks to the TCOSCPA for the opportunity to speak here today