

Research about Leadership Ethics and Conscience

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About the Research

In 2014 April Jagall & Partners in cooperation with Innovalab Institute launched a survey to map leadership ethics and innovation performance and their potential connections perceived within the organizations. The research was undertaken with collaborative participation of both parties, and has covered two main areas of interest; namely, the organizations' innovative achievements, and the level and quality of leadership ethics and their fostering atmosphere within the organizational context.

The questions applied referred to the experience perceived by the respondents as well as their attitudes. In the online survey respondents included 130 people representing small, mid-size and large companies working in Hungary. There were 102 fully validated answers. The participants were consisting of the following:

Position	Owner, Shareholder	11%	Size/employee	1-9 employees	16%
	Executive	28%		10-49 s	8%
	Middle manager	38%		50-249 employees	22%
	Line manager	4%		250-999 employees	12%
	Specialist, project manager	9%		over 1000 employees	43%
	Other subordinate	10%			
Ownership structure	100% foreign ownership	55%	Functional role	HR	21%
	majority foreign ownership	8%		Management	19%
	majority Hungarian ownership	5%		Sales and Trade	14%
	100% Hungarian ownership	32%		Production, Operations	6%
				Research and Development	6%
Ownership	100% state owned	10%		IT	5%
	100% privately owned	82%		Marketing, PR	5%
	state and privately owned	8%		Finance	5%
				Customer Care	4%
		Quality assurance, Compliance		3%	
		Legal		1%	
		Logistics	1%		
		Other	12%		

The current paper introduces the ethical research section of the overall research and will not discuss the findings related to the theme of innovation.

The purpose of studying the ethical leader

Since the introduction of SOX (Sarbanes–Oxley Act) practices when about a decade ago the great scandals of stock exchange bubbles started popping (Enron, Tyco International, Worldcom), the systemic supervision and the control of ethical business behavior became rather a minimum standard for decent companies. Even though the built-in reporting and internal audit procedures helped in making the business activities more transparent, in today's complex world where a company's operations besides the shareholders and the employees affect many more economic and civil players (communities, families), it is extremely important to examine the notion of ethics in a much wider context.

For those who are seeking fair and sustainable business practices leadership ethics means much more than simply not being corrupt or not forging business data or committing fraud. The recent examples of large scale breakdowns causing many to suffer in our society prove that regulations of the business environment easily enable the players to act with full legal compliance, yet in an ethically objectionable way. "The economic playing field is tilted to favor big players that privatize profits at the top and socialize losses."¹

It is merely up to the decision makers' personal characteristics, habits, beliefs and consciences where the moral line is drawn between the ethical and the non-ethical actions. And yet, what is it that determines at the end where this confining fine line is laying for the individuals? After all, if we talk about business ethics, we can't ignore the fact that they are not the impersonated companies who make the decisions, rather the individual people who work within them. Since "the business does not have conscience, the people have."²

There have been several studies performed earlier in regard to the above subject matter. For example the investigation on the linkage between leadership integrity and personal characteristics, as well as the role of honesty and humility in moral disengagements³, and the impact of power and its related responsibility on ethical decision making.

In our current research our attention was not focused on the leader's personality traits, but rather on her beliefs and convictions in the following three realms:

- **Awareness (systems thinking):** is the leader aware of the impacts of her decision? Does she know what kind of gain or harm she is causing to others in the system? / HEAD
- **Empathy:** besides knowing how others are affected, does the leader care? / HEART
- **Actual behavior, decision making:** how does the leader judge her own behavior and decisions, how ethical does she think she is acting? To what degree can she comply with her own ethical measures in the real business world? / HANDS

Besides the factors determining personal ethics, we also looked into two further aspects, since these can also influence the actual ethical behavior of the individual:

- **The positive belief in the ethical business environment in Hungary:** how much does the leader believe that ethical behavior is feasible in the bigger market environment and that it has a return?
- **Organizational ethics:** what is the corporate ethics like which surrounds the leader at her workplace?

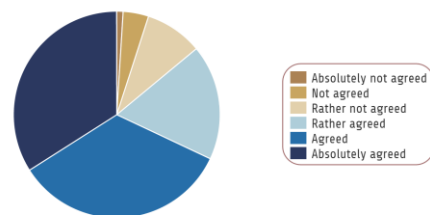
General attitude towards the ethics climate in Hungary

The great majority (86%) of the respondents believe in the Hungarian business environment a company can be completely ethical and at the same time profitable as well.

Yet, it is interesting to note, that 64% of the same respondents also agree that whoever is successful in the business, has to make decisions which, even though unintentionally, but will definitely cause harm to others. By combining these two answers, the general thinking can be interpreted as 'yes, it is possible to be profitable and ethical at the same time, but successful business activities by nature will cause harm to others'. According to these leaders not everyone can be a winner even in an ethical business environment.

Nevertheless, based on the responses, this type of harmful effect is less visible from the top, as significantly less (55%) executives agree with the above statement compared to the middle and other subordinate level responses (69%).

A 100% ethically correct company can be also profitable in today's business environment.



I agree that those who are successful in business also have to make decisions which unintentionally but will cause damage to others.



Leader's awareness and systems thinking (HEAD)

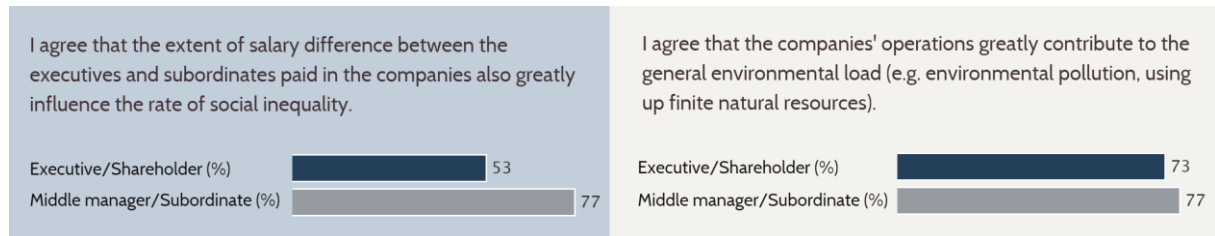
The long time held philosophy of 'what is good for me it is also good for others' is not viable anymore in today's complex world where the complicated interconnectedness of environmental and societal impacts are

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continuously shaping our environment. As Ervin László put it: "Today, this is equivalent to egoism. We can only operate well if we keep the interest of the whole system in mind."⁴ This was the reason why we felt it was important to check where the borders are in the leaders' systems thinking and how they perceive the impacts that their companies are making on their wider environment.

There seems to be a significant difference between the top and the middle management responses, where a higher societal system awareness is present among the middle managers (77%), while only 55% of top executives say that there are such connections.



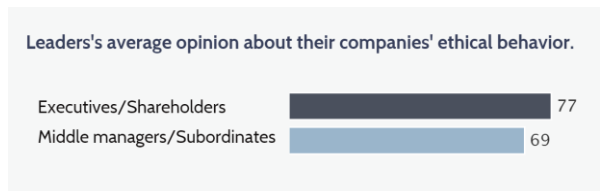
Perception of organizational ethics

The corporate culture and the business pressure surrounding the leader can fundamentally influence the degree of freedom an individual can feel when she wants to behave ethically. The daily corporate practices and the values dictated by the shareholders might apparently or in reality narrow down the autonomy of the leader in creating ethical business partnerships.

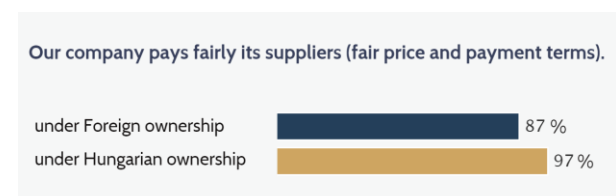
In our study, the significant majority of the respondents (at least 8 out of 10) states that the company he/she is working in:

- Ensures fair and transparent tendering procedures for new contracts
- Treats its employees with dignity and respect and provides fair remuneration for them
- Pays its suppliers and subcontractors in a correct way (at fair price and under fair payment term)

However, the statements responding to the last two points show a significant difference between the perceptions of the different leadership levels. If we combine into one index the answers given to the organizational ethics questions, it becomes visible that compared to the top executives the middle management/subordinate level is significantly more negative in judging the corporate ethical behavior (average value 69 vs 77). Thus the top management has a more favorable view on their companies' ethical performance.



While in analyzing other ethical aspects we did not discover any significant differences related to the size or the ownership background of the companies, when we asked about the supplier treatment there was a univocal difference. The leaders working in Hungarian companies had a more positive opinion (97%) regarding supplier payment than the ones working in foreign owned companies (87%).



Since the pressure coming from the top can greatly affect the quality of ethics of leadership decisions, we examined the perceived short and long term profit view of the shareholders. Based on the answers, 37% of the respondent said that this year's profit is more important for the owners than the long term success. Based on the attributes of the company, this was the most dividing question, since the leaders working in companies with more than 250 employees and under foreign ownership felt most that their shareholders are looking for short term gain. Almost only half of the leaders felt the same way in the companies which were smaller and had Hungarian owners.



Leader's empathy (HEART)

Just because a leader is aware of the impacts of the business decisions, it is not evident that she also cares about them and about those involved. Usually a decision becomes an ethical question or a dilemma when either the principle itself or the parties affected have an important place somehow in the leader's personal value set. Therefore we also looked into the empathic side of the leaders, how much they are concerned with other people both in their closer and in their wider environment.

Nine out of ten leaders have professed that the well being of their colleagues is personally important for them and yes indeed others' suffering make them sad. This proportion is valid among the top and also among the middle managers.

For that very reason it is worth noting that close to 40% of the leaders have experienced situations when during a business decision their personal values were in conflict with the company's interest. It is interesting to see that the more we go up on the corporate ladder, this conflict is less detectable. While 44% of the middle managers confessed that they are facing such situations, only 25% of the top leaders/shareholders said the same. What could be the reason that top leaders experience these ethical dilemma situations at a much smaller rate? Based on this research, their empathy index is just as high as the other respondents', but their systems thinking index is lower.

Perceiving one's own actual ethical behavior (HANDS)

Based on one's own personal judgment, we also examined the leader's actual behavior; to what degree she is able to take ethical aspects into account while making decisions at the workplace. In spite of the 40% of leaders who experience ethical dilemma, the great majority (at least 8 out of 10) of the participants say that the personal welfare of the colleagues, sustainability and

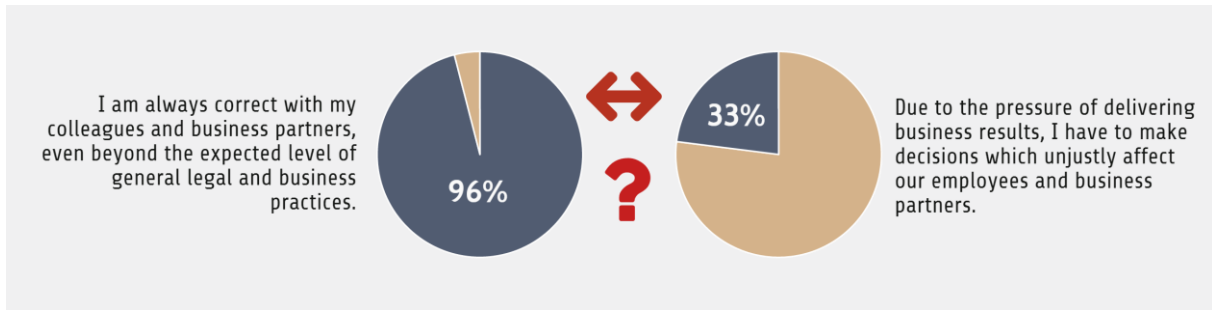


correctness are important factors when making decisions. Furthermore, they indicated, that they act fairly with their colleagues and business partners even when this behavior goes beyond the generally expected level of legal and business practices.

This contrast is eye-catching in the results of the current research. Especially if we see that parallel to this nearly 100% correct behavior, 22% of the respondents feel that under the pressure of the business expectations they often have to make decisions where employees and partners are affected unreasonably negatively. This means that almost one out of five people feels this difficulty.

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This incongruity gets even stronger by the fact, that 8% of the middle managers and subordinates are disturbed to a degree, that according to their own evaluation they would not pass the so called “newspaper test”, that is to say during their work they often make decisions which they would be ashamed to admit to their families or friends!

The coefficients of ethical leadership

We also analyzed ethical leadership by the correlation of the indexed averages of the three different factors (awareness/systems thinking, empathy and the actual decision making). These cross indexes show a positive correlation between the systems thinking and the empathy factors. In the sample we examined there was not one leader who had high systems thinking score accompanied by a low empathy index. However, the other way around is present.

% of respondents by indexes		Empathy index			
		Low 1-40	41-60	61-80	High 81-100
Systems thinking index	Low 1-40	2%	9%	8%	3%
	41-60	1%	12%	24%	15%
	61-80	5%	10%	10%	10%
	High 81-100	2%	2%	1%	1%

Based on our research while there are leaders who are able to sympathize with others easily, they might not be able to recognize the wider systemic context of cause and effect, such as how a company’s activity can contribute to societal or environmental damages, or who are affected adversely by a business decision? However, if a leader professes higher degree of systems thinking, a kind of holistic approach, then there is a high probability that her empathy level is also high.

It is much easier to be ethical, when one only sees a small part of the world’s complexity, and does not have to take into account the indirect effects of her decision. But those with more information and higher awareness understand the connections and obviously see more clearly the results and potential negative impacts of a business decision on others, and it seems they also care more.

Segmentation: where can we typically find the ethical leader?

In case based on recognizing patterns in the responses we would like to type the leaders in this survey, the following segments are given.

	*n=	30	35	18	83
	%	36%	42%	22%	
		Segm 1	Segm 2	Segm 3	Total
index_Systems thinking		62	46	63	56
index_Organizational ethics		83	75	52	73
index_Empathy		80	61	80	72
index_Behavior, decisions		83	70	67	74

** only the leader respondents are part of this segmentation*

I. segment: 'Ethical leader in ethical organization'

These leaders have significantly higher systems thinking and empathy indexes, they work in a highly ethical corporate environment and according to their judgments ethical considerations are more important in their decisions than at the average.

They can be found with the same probability in small, mid size and in large companies, under local and foreign ownership, just as much as on the top and in the middle levels in the organization.

36% of the population studied in the current research belongs to this segment.



2. segment: 'Ignorant or self-deluded leaders'

Even though the systems thinking and the empathy indexes of the leaders in this segment are significantly lower than the average, based on their own judgment they say that they consider the ethical factors in their decision making just as much as the others. They are satisfied with the ethical standards of their organizations, but this type of positive opinion might be due to a limited ability to see the whole system and its complexity and due to a certain lack of empathy.

We can find these leaders with a higher probability among the top executives and shareholders.

42% of the examined population is part of this segment.



3. segment: 'Self-accusing or disillusioned leaders'

The members of this segment have both exceptionally high system thinking and empathy indexes, but their opinion regarding their personal and also their organizations' ethical behavior and decision making is significantly more negative compared to the average. We could ask if this critical opinion truly reflects the reality and these leaders are really working in less ethical companies, or due to their high awareness and empathy skills it is rather mirroring a more rigorous judgement.

We can meet these leaders with higher probability in large companies and among middle managers.

More than one fifth of the respondents make up this segment.



Summary and further questions

The Hungarian leaders and subordinates who participated in the research are generally positive about their company's ethics and also about their own personal ethical behavior. In spite of this positive judgment, the majority (67%) would still accept lower profits if this would be the cost of treating their customers, employees and partners more fairly. Does that mean that these leaders see room for acting more ethically? It seems that there is a wish for acting more ethically in the business sphere, since every fourth respondent feels that due to the profit pressure they have to make decisions which affect others adversely. It is no surprise that the majority (52%) of the leaders in such situations strive to decrease the negative effects, and also experiences stress (42%). The situation is more alarming when we see that almost half of the middle managers face internal conflict of conscience at their workplace. With future studies we could explore the roots of this internal conflict, and in what way could these leaders be supported. What kind of skills, tools can be provided for them to handle ethical dilemma situations? Furthermore, what kind of corporate culture and environment could decrease or hinder the occurrences of such ethically questionable situations?

The results clearly show that the top executives and the shareholders are much more positive about their own personal and their organizations' ethical behavior than the rest of the employees working on lower levels. Even though they are just as empathic as the average employee, due to their more limited systems thinking seen in the research data, they are less able to understand the negative consequences of their decisions on other parties. Of course dealing with a wider context and seeing the indirect causes and effects makes life and ethical dilemmas more complicated and encumber fully ethical behavior. It would be worth to investigate the reasons behind the more narrow systemic view at top leaders. To what degree could this be attributed to a

more result oriented and focused approach, or rather to a self-defense reaction resulting from the cognitive dissonance caused by uncomfortable decisions?

A further topic can be raised connected to the current subject, such as what happens when a basically ethical leader is buried by the complexity of the system and the massive overload of information and the transparency of the causes and effects of the decisions become blurred. The fine line between ethical and unethical disappears. These cases belong to the notion of ethical blindness studied since the seventies (Milgram⁵, Zimbardo⁶).

Based on the original purpose of our research, we have analyzed three factors in the ethical behavior of the Hungarian leaders. When these factors are present all together and head-heart-hands are aligned, they can really add to the improved quality of ethical business decisions and behavior. To behave ethically, a leader must be able to think holistically, have to have compassion and be brave enough to act according to her objectives and believes.

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⁵ Milgram, S. (1974), Obedience to Authority; An Experimental View, Harpercollins

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