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***JVBL* Mission Statement**

The mission of the *Journal of Values-Based Leadership (JVBL)* is to promote ethical and moral leadership and behavior by serving as a forum for ideas and the sharing of “best practices.” It serves as a resource for business and institutional leaders, educators, and students concerned about values-based leadership. The *JVBL* defines values-based leadership to include topics involving ethics in leadership, moral considerations in business decision-making, stewardship of our natural environment, and spirituality as a source of motivation. The Journal strives to publish articles that are intellectually rigorous yet of practical use to leaders, teachers, and entrepreneurs. In this way, the *JVBL* serves as a high quality, international journal focused on converging the practical, theoretical, and applicable ideas and experiences of scholars and practitioners. The *JVBL* provides leaders with a tool of ongoing self-critique and development, teachers with a resource of pedagogical support in instructing values-based leadership to their students, and entrepreneurs with examples of conscientious decision-making to be emulated within their own business environs.

Call for Papers

The *JVBL* invites you to submit manuscripts for review and possible publication. The *JVBL* is dedicated to supporting people who seek to create more ethically and socially-responsive organizations through leadership and education. The Journal publishes articles that provide knowledge that is intellectually well-developed and useful in practice. The *JVBL* is a peer-reviewed journal available in both electronic and print fora. The readership includes business leaders, academics, and students interested in the study and analysis of critical issues affecting the practice of values-based leadership. The *JVBL* is dedicated to publishing articles related to:

1. Leading with integrity, credibility, and morality;
2. Creating ethical, values-based organizations;
3. Balancing the concerns of stakeholders, consumers, labor and management, and the environment; and
4. Teaching students how to understand their personal core values and how such values impact organizational performance.

In addition to articles that bridge theory and practice, the *JVBL* is interested in book reviews, case studies, personal experience articles, and pedagogical papers. If you have a manuscript idea that addresses facets of principled or values-based leadership, but you are uncertain as to its propriety to the mission of the *JVBL*, please contact its editor.

While manuscript length is not a major consideration in electronic publication, we encourage contributions of less than 20 pages of double-spaced narrative. As the *JVBL* is in electronic format, we especially encourage the submission of manuscripts which utilize visual text. Manuscripts will be acknowledged immediately upon receipt. All efforts will be made to complete the review process within 4-6 weeks.

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house review, or c) forward the manuscript for review pursuant to the provisions of the following paragraph.

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Letter from the Editor

The more money, the bigger the size...the less control and the less ethical

When considering this statement, thoughts of corporate malfeasance committed by the largest multi-national entities (MNEs) come to mind – from the Enron scandal in 2001 which led to the passage of the 2002 Sarbanes-Oxley Act¹ – to the BP oil spill in April, 2010, which has now escalated to myriad lawsuits filed by the U.S. government, state agencies, individuals, and businesses. Modern-day commentators and critics have asserted the “bottom line” will always be the driving force of businesses, regardless of labor exploitation, product inferiority, environmental degradation, and non-allegiance to any nation. In light of the hundreds of millions of dollars in fines assessed by the U.S. government alone against a substantial number of MNEs and small and medium enterprises (SMEs) over the last decade, perhaps credence should be given to this pronouncement: “Corporations have neither bodies to be punished nor souls to be damned.”²

Clearly, the current business community has not eschewed the Friedman economic paradigm, but there are refreshing examples of business leaders championing social responsibility and environmental stewardship as the second and third prongs of the metrics used to measure the success of any business. This type of leadership is not only inspiring but has become increasingly attractive to more of the investor community. Companies have begun to evaluate their operations that extend beyond merely increasing their net profit, and are demonstrating significant community involvement, environmental respect, and equity in labor practices. Ostensibly, these other metrics of gauging business success may truly be disingenuous and undertaken solely for the purpose of marketing as opposed to representing a serious, concerted effort to discern how that business entity could be a better world citizen. Other changes of the corporate paradigm may come as a result of government sanctions or enactment of relevant rules and statutes. Some business leaders may effect changes as a means of atonement of past bad practices.

But others have displayed a greater sense of commitment, transcending empty praise.

The articles in this issue will allow you to arrive at your own conclusions.

— *Elizabeth Gingerich*, Editor

¹ *Sarbanes-Oxley Act of 2002*, also referred to as The Public Company Accounting Reform and Corporate Responsibility Act, (January 5, 2009, 15 U.S.C. Chapter 98).

² J. Poynder, J. (1844). Lord Chancellor Thurlow (c 1775). *Literary Extracts* I. 268.

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International Business Machines, or IBM, has been an indisputable force in the communications industry, leading the world into the modern, global technological age. Currently, IBM has revamped its business paradigm, allocating the majority of its resources to consulting work and data analyses rather than manufacturing as it had done so in the past – for the primary objectives of optimizing existing assets, resolving problems of burgeoning cities and beleaguered governments, and enhancing peoples’ lives in a sustainable way.

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Interview with Sandy Dochon, Manager, Corporate Citizenship & Corporate Affairs and Jeff Tieszen, P.R. Manager, Western U.S., IBM Americas

A candid discussion is presented with two IBM corporate managers regarding IBM’s history and current involvement in sustainable global development. This frank interview travels from the roots of the organization through the changing leadership of today, explores dilemmas experienced and lessons learned, and identifies the challenges and successes of one of the largest multi-national corporate entities in the world marketplace.

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These three authors have collaborated to provide a comprehensive examination of a small winery business and the revelation of the necessary variables for success – financially, ethically, and environmentally. A case study of this business is presented from its inception to its current status as a small, yet growing and well regarded business. It’s secret for success? Take care of your customers and employees, make the highest quality product, and take pride and conserve the natural resources which support the business.

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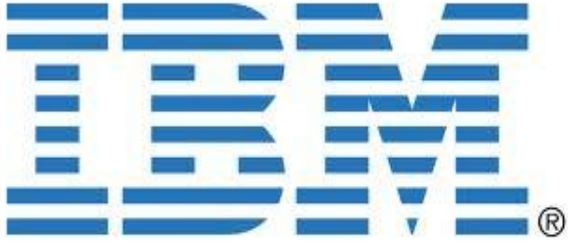
Travis M. Hagelberg, Gonzaga University (WA), Cheyenne, WY

Applying the analogy of the four supporting pillars of support for a table — and thus, in similar fashion with a true and lasting, moral leader — Hagelberg discusses how four leadership principles in particular – *integrity*, *competence*, *emotional intelligence*, and *vision* – are the four essential traits of successful and lasting leadership.

93 The Leader as Moral Agent: Praise, Blame, and the Artificial Person

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The leader as the moral agent can be both a singular and a collective entity. Regardless, that individual or group of individuals must establish and live by a moral paradigm where self-respect and respect for co-workers is paramount. In essence, the moral agent must “lead by example.” And it is not simply sufficient to choose the correct pathway but to *care* about choosing the correct pathway, stripping the decision-making process of disingenuous or superficial motives and injecting heart, concern, and passion for doing what is right.



"Ethics and competitiveness are inseparable. No society anywhere will complete very long or successfully with people stabbing each other in the back; with people trying to steal from each other; with everything requiring notarized confirmation because you can't trust the other fellow; with every little squabble ending in litigation; and with government writing reams of regulatory legislation, tying business hand and foot to keep it honest. There is no escaping this fact: the greater the measure of mutual trust and confidence in the ethics of a society, the greater its economic strength."

— John Akers, former IBM Chairman

"SMART" Change in Strategy:

IBM's Response to Challenging Times*

Introduction

It might surprise the average reader to know that American giant International Business and Machines, better known as IBM, only dedicates about 20% of its services to the manufacture of its hardware. The remaining 80% is devoted to consulting in the computer and technology fields. IBM's consulting programs all share one common characteristic: the word **SMART** – or a derivative thereof – typically precedes the name of the specific consulting program involved. What is readily apparent is that these **SMART** programs have reignited a new phase of innovation and creativity in a world demanding an equitable balance of economic, social, and environmental concerns.

Founded on June 16, 1911, in Endicott, New York, IBM has always been a frontrunner in innovation. Some of its business practices, both past and more currently, have been controversial; others have developed responsibly and ingeniously in answer to customer and shareholder demands and to meet, and even exceed, government regulations.

IBM has summarized its approach in doing business in a world marked by serious challenges:

"The issues we are addressing – from clean water, to safe food, to sustainable and vibrant cities, to smarter work, to empowered communities – are not a choice between business

*Gingerich, Elizabeth (2011). The IBM logo is used in this article for educational purposes only.

strategy and citizenship strategy. They are both.”³

This company recognizes the interconnected global community that exists and realizes that:

“The way the world literally works has to become **smarter**.”

IBM has funneled its resources into building smarter transportation systems, cities, power grids, money, food systems, healthcare, telecommunications, and water – around the globe. And this smarter way of doing business is not just applied internally, but also to businesses, municipalities, governments, and countries.

The Evolution of a Multinational Corporation

IBM is headquartered in Armonk, New York. As of 2009, IBM employed more than 399,409 worldwide.⁴ Other relevant statistics from its 2009 annual report indicate increases in revenue by \$95.75 billion, operating income by \$17.01 billion, net income by \$13.42 billion, and total equity by \$22.63. However, the company’s total assets declined by \$109.02 billion in that same year.⁵

To further understand the breadth of this company, it is important to recognize that its commitment to innovation is reflected by the number of patents it holds. From 1993 to 2007, IBM was awarded over 38,000 U.S. patents and has invested approximately \$5 billion a year in research, development, and engineering since 1996. IBM’s current active portfolio contains approximately 26,000 patents in the U.S. and over 40,000 patents worldwide as a direct result of its investments. *Business Standard* reports that IBM “shattered the patent record in 2008, becoming the first company to surpass 4,000 patents in a single year.”⁶ Ostensibly, IBM is a formidable organization, having effectively launched a campaign to create new assets, promote the optimization of existing assets, and analyze data to better lives in various ways.

The Environment

Waste Reduction

IBM established a corporate policy on environmental protection in 1971 with the support of a comprehensive global environmental management system. According to company reports, its total hazardous waste decreased by 44% over the past five years and 94.6% overall since 1987. IBM’s total hazardous waste calculation consists of waste generated from both non-manufacturing and manufacturing operations. Waste from manufacturing operations includes waste recycled in closed-loop systems where processed chemicals are recovered for subsequent reuse rather than for potentially toxic disposal. Within the last decade, IBM has redesigned processes to eliminate almost all closed-loop recycling and has actively substituted more environmental-friendly materials. IBM has additionally constructed a modeling solution to help

³ IBM 2008 Corporate Responsibility Report, *Last visited* March 8, 2011, <http://www.ibm.com/ibm/responsibility/report-home.shtml>.

⁴ IBM 2009 Annual Report. *Last visited* March 8, 2011, http://www.ibm.com/annualreport/2009/2009_ibm_annual.pdf.

⁵ IBM 2009 Annual Report, *Financial Highlights*. *Last visited* March 8, 2011, <http://www.google.com/finance?q=NYSE:IBM&fstype=ii>.

⁶ IBM tops patent leadership in 2008. *Business Standard*. Mumbai, India. January 15, 2009.

protect the environment and reduce its own carbon footprint by using a *Green Sigma* system.⁷ IBM's goal with the Green Sigma offering is to partner with clients to both realize economic benefits and to achieve a reduction of the company's impact on the environment.⁸

Since 2005, IBM's total hazardous waste has decreased by 33.9 percent. By 2009, IBM recycled 45 percent of all of its hazardous waste while 31.4 percent (mainly sludge from industrial wastewater treatment plants) was sent to landfills. Of the nonhazardous waste IBM generated in 2009, 76 percent was recycled.⁹ But while IBM has made significant inroads in reducing landfill waste, it must still grapple with accumulated electronic or "e-waste." In the post-World War II age, IBM, like all other technology manufacturing companies, realized enormous success with the production of computers and software. But with rapidly changing technology, electronics have been rendered obsolete in short periods of time. The U.S. alone discards 30 million computers each year of which the Environmental Protection Agency estimates only 15-20% is recycled with the remainder disposed of into landfills.¹⁰

According to the Environmental Protection Agency, the U.S. is currently home to approximately 3,091 active landfills and over 10,000 old municipal landfills,¹¹ most of which contain e-waste or Waste Electrical and Electronic Equipment (WEEE). E-waste includes discarded, surplus, obsolete, or nonfunctioning electrical or electronic devices. The particles and compounds which comprise these devices are known to cause serious health and pollution problems to humans, animals, and eco-systems. Some electronic scrap components, such as cathode ray tube (CRT) computer monitors, contain contaminants such as lead, cadmium, [epoxy resins](#), [fiberglass](#), [PCBs](#), [PVC](#) (polyvinyl chlorides), [thermosetting plastics](#), and mercury – all known toxins. The release of these materials into the ground contaminates underground aquifers and into the air as methane gas increasingly continues to pose serious environmental dangers.¹² To date, there is no federal or state legislation that would require the producers of these items – including IBM – to mine these landfills and recover their discarded products.¹³

Other negative environmental charges have specifically plagued IBM. For example, it has been reported that IBM used liquid cleaning agents in circuit board assembly operations for more than two decades. Six separate spills and leaks were recorded, including one leak in 1979 of 4,100 gallons from an underground tank. These oversights left volatile organic compounds behind in the soil and aquifers of Endicott, New York, the original home of IBM's world headquarters. Elements of toxic organic compounds were identified in the town's drinking water, albeit within regulatory limits. Additionally, from 1980, IBM has reportedly pumped out 78,000 gallons of chemicals – including trichloroethane, freon, benzene, and perchloroethene – directly into the air. IBM Endicott has been identified by the Department of Environmental

⁷ *Green Sigma* is part of a system which is currently being developed in Dublin, Ireland, and focuses on carbon, water, atmospheric emissions, liquid waste, solid waste, ground emissions, and the reporting on these elements. Retrieved May 23, 2010, <<http://www.ibm.com/ibm/responsibility/world/environmental/pollution.shtml>>.

⁸ "IBM." Retrieved May 23, 2010, <http://www-935.ibm.com/services/uk/bcs/pdf/ibm221602greensigmfinal.pdf>.

⁹ See <<http://www.ibm.com/ibm/environment/pollution/>>. Last visited March 6, 2010.

¹⁰ See <<http://www.epa.gov/epawaste/conserve/materials/ecycling/manage.htm>>. Last visited March 6, 2010.

¹¹ See <<http://www.zerowasteamerica.org/landfills.htm>>. Last visited March 8, 2010.

¹² Jones, Daniel C.(2010). *Business Management*. 8:38, Feb. 26.

¹³ See <<http://www.epa.gov/dfe/pubs/comp-dic/lca-sum/ques8.pdf>>. Last visited March 8, 2010.

Conservation as a major source of air and water pollution, however, state health officials have been unable to conclusively link the pollution to specific health problems.¹⁴

Transportation and Alternate Sources of Energy

Undoubtedly, the measure of true principled growth of both individuals and businesses is taking full accountability for past mistakes and committing to change. IBM has – especially within the last several decades – launched laudatory environmental initiatives. In addition to the reduction of its own generated waste, IBM has ventured into smarter commuting practices and the use and development of alternate sources of energy. With respect to worker commuting, IBM was recognized in 2005 as one of the “Top 20 Best Workplaces for Commuters” by the United States Environmental Protection Agency (EPA) in recognition of the company’s efforts to reduce traffic and air pollution.¹⁵ And in the field of solar power, Tokyo Ohka Kogyo Co., Ltd. (TOK) and IBM have been in the process of collaborating to establish affordable methods for introducing the next generation of solar energy products into the global marketplace.¹⁶ Known as CIGS (Copper-Indium-Gallium-Selenide) solar cell modules, this thin film technology, has been touted as being capable of reducing the overall cost of solar cells to further enable their widespread adoption.¹⁷

Additionally, IBM has also made a switch to natural gas which has helped the company lower its greenhouse gas emissions by 70 percent and its energy use by 21 percent since 1990. In 2005 and 2006 alone, the company saved \$4.4 million through a 2 percent reduction in fuel consumption.¹⁸ Other noteworthy initiatives include the following:

- **2005:** Received Low Carbon Leaders Award from The °Climate Group.
- **2006:** Established IBM’s 2nd generation CO₂ emissions reduction goal, building upon its results between 1990 and 2005. IBM’s energy conservation actions conserved 4.3 billion kWh of energy, avoided 2.7 million metric tons of CO₂ emissions (an amount equal to 40 percent of its 1990 emissions), and saved the company \$273 million in energy expense.
- **2006:** Received the U.S. EPA’s Climate Protection Award (the first company to receive the award twice) and was recognized by the U.S. EPA under the *Climate Leaders* program for attaining voluntary goals.
- **2007:** Prohibited the use of polyvinyl chloride (PVC) in IT system enclosures and perfluorooctane sulfonate (PFOS) and perfluorooctanoic acid (PFOA) in new IBM manufacturing, development, and research processes.
- **2007:** Was recognized by the EPA for its leading green power purchases in the U.S. and for its support and participation in the EPA’s Fortune 500 Green Power Challenge. IBM

¹² “In an I.B.M. Village, Pollution Fears Taint Relations With Neighbors.” *New York Times Online*. 15 March 2004.

¹³ “Environmental Protection.” Retrieved May 23, 2010, <<http://www.ibm.com/ibm/responsibility/world/environmental/pollution.shtml>>.

¹⁴ “IBM and Tokyo Ohka Kogyo Turn Up Watts on Solar Energy Production.” Retrieved May 23, 2010, <<http://www.ibm.com/ibm/responsibility/world/environmental/pollution.shtml>>.

¹⁵ “IBM.” Retrieved May 27, 2009, <<http://www.ibm.com/ibm/green/index.shtml>>.

¹⁶ See <http://www.ibm.com/ibm/environment/information/40_Years_of_IBM_Environmental_Leadership.pdf>. Retrieved May 23, 2010.

purchased enough renewable energy in 2007 to meet 4% of its U.S. electricity use and 9% of its global electricity purchases.¹⁹

- **2008:** Joined the Carbon Disclosure Project's Supply Chain Project at its inception.
- **2009:** Purchased 560 million kWh of renewable energy, representing 11.3 percent of the company's global electricity usage and a CO2 emissions avoidance of 191,000 metric tons.
- **2009:** Avoided the emissions of more than 334,000 metric tons of CO2 through its energy conservation efforts and procurement of renewable energy.
- **2010:** Established requirement that all IBM suppliers develop, deploy, and sustain a corporate responsibility and environmental management system, set voluntary environmental goals, and disclose performance.
- **2010:** Achieved elimination of *all* uses of PFOS and PFOA in the company's semiconductor manufacturing operations.
- **2010:** Announced it had built a solar cell in which the key layer that absorbs most of the light for conversion into electricity is made entirely of readily available elements and is manufactured using a combination of solution and nanoparticle-based approaches. This solar cell set a new world record for efficiency and holds the potential for producing low-cost energy that can be used widely and commercially.²⁰

Human Resources

Internationalization, Shifting Demographics, and Unionization

In 2010, IBM employed approximately 105,000 workers in the U.S. – a decrease of 30,000 since 2003. In the first quarter of 2005, IBM eliminated 14,500 positions – predominantly in European countries. On June 8, 2005, IBM Canada Ltd. eliminated approximately 700 positions. However, in its determination to broaden its focus by engaging emerging markets, these figures are offset by IBM's employment of over 75,000 people in India – an increase of over 66,000 in 2003.²¹ Additionally, IBM offices in China, the Philippines, and Costa Rica have been witnessing a recruitment boom due to lower wages, less regulatory controls, local revenue growth, and increasing percentages of educated and skilled technical and business workers. IBM has explained this reconstitution of its global workforce to be an integral part of an overall strategy to “rebalance” its portfolio of professional skills.

Even with a workforce this large and this diverse, union representation has not been a significant factor in management-labor relations. Traditionally, IBM has resisted labor union organizing, although unions do represent some IBM workers outside the United States, most notably in the United Kingdom. Perhaps this has not been problematic as IBM has a long record of rewarding its employees with benefits and bonuses and was one of the first corporations to provide group life insurance (1934), survivor benefits (1935), and paid vacations (1936) to its workforce. Additionally, employees have been encouraged to discuss their grievances and concerns with

¹⁹ See http://www.ibm.com/ibm/environment/news/greenpower_2007.html. Retrieved March 8, 2011.

²⁰ See http://www.ibm.com/ibm/environment/information/40_Years_of_IBM_Environmental_Leadership.pdf. Retrieved March 8, 2011.

²¹ Freeland, Chrystia (2010-10-22). “The Mumbai consensus.” *Reuters - Analysis & Opinion*. <http://blogs.reuters.com/chrystia-freeland/2010/10/22/the-mumbai-consensus/>. Retrieved March 8, 2011.

management through the company's *Open Door* program. This form of internal resolution dispute was first implemented by John J. Watson, Sr. (the company's first president) in the 1910s. The *Open Door* program was a traditional company practice that granted employees with complaints hearings with senior executives, including the company's president.²²

Diversity in Policy and Practice

With respect to civil rights, IBM's historical tendency has been to veer from the norm and act preemptively. For instance, in contravention to the U.S.'s entrenched policy of segregation – in part legislated by judicial fiat in *Plessy v. Ferguson*²³ – and well before the enactment of the Civil Rights Act of 1964²⁴ and the Americans with Disabilities Act,²⁵ IBM had already begun to diversify its workforce. In 1899, the Computing Scale Company – one of three companies to later form IBM – employed African-American Richard MacGregor as well as three women, Lilly J. Philp, Nettie A. Moore and Emma K. Manske.²⁶ By 1914, IBM added a disabled employee to its workforce.²⁷ On September 21, 1953, IBM's second president, Thomas J. Watson, Jr., sent out a controversial letter to all IBM employees stating that IBM needed to hire the best people, regardless of their race, ethnic origin, or gender. He also publicized this policy so that in his negotiations to build new manufacturing plants with the governors of two states in the U.S. South, his message that IBM would neither construct nor maintain "separate-but-equal" workplaces would be unambiguous.²⁸

IBM added sexual orientation to its nondiscrimination policy in 1984 acknowledging that by eliminating such barriers, the company would acquire a competitive advantage because IBM would be able to hire talented people turned down by its competitors.²⁹ IBM has gone even further with its human relations policies by providing same-sex partners of its employees with health care benefits and by creating both a *GLBT Diversity Network Group* and the *Employee Alliance for Gay and Lesbian Empowerment* (EAGLE), the latter boasting over 1000 registered members worldwide. The *Human Rights Campaign* has rated IBM 100% on its index of gay-friendliness since 2003.³⁰ This recognition and protection of human rights has not just been restricted to employees in the United States. For example, in 2007 and again in 2010, IBM was ranked first in *Stonewall's* annual *Workplace Equality Index* for U.K. employers. Globally, IBM has won over forty gay, lesbian, bisexual, and transgender awards.³¹ And with respect to working

²² Mills, Daniel Quinn & Friesen, G. Bruce (1996). *Broken Promises: An Unconventional View of What Went Wrong at IBM*, Harvard Business Press, pp. 69–70.

²³ 163 U.S. 537 (1896).

²⁴ Pub. L. 88-352, 78 Stat. 241, enacted July 2, 1964.

²⁵ *Americans With Disabilities Act of 1990*, Pub. L. 101-336, 104 Stat. 327, enacted July 26, 1990, codified at 42 U.S.C. § 12101.

²⁶ "IBM." <http://www.ibm.com/employment/us/diverse/heritage_ibm_1900.shtml>. Retrieved March 8, 2011.

²⁷ "IBM Valuing Diversity: Heritage - 1910s." IBM. <http://www.ibm.com/employment/us/diverse/heritage_ibm_1910.shtml>. Retrieved March 8, 2011.

²⁸ "IBM's EO Policy letter is IBM's foundation for diversity." IBM. <<http://www.ibm.com/employment/us/diverse/50/tc.shtml>>. Retrieved March 8, 2011.

²⁹ "IBM Valuing Diversity: Heritage - 1980s." IBM. <<http://www.ibm.com/employment/us/diverse/heritageibm1980.shtml>>. Retrieved March 8, 2011.

³⁰ *HRC Corporate Equality Index Score*. International Business Machines Corp. (IBM) profile. <<http://www-ibm.com>>. Retrieved May 27, 2009.

³¹ "IBM." <<http://www-03.ibm.com/employment/us/diverse/awards.shtml#glbt>>. Retrieved May 5, 2009.

women, IBM was the only technology company ranked in *Working Mother* magazine's Top 10 for 2004³² and one of two technology companies in 2005.³³

Unsettled Accounts

Privatization Backlash

In an attempt to privatize the processing of welfare assistance applications and determine eligibility for food stamps, Medicaid, and other needs-based benefits, Indiana Governor Mitch Daniels signed a 10-year, \$1.16 billion deal with IBM in 2006. The objective of this alliance was to upgrade and outsource the state's paper-based welfare application system to a system which uses a statewide call center and online document processing. Part of this new plan was to shift 1,500 of the state's 2,200 caseworkers to the private sector. After receiving myriad complaints from clients whose claims were allegedly lost or wrongfully denied, the State of Indiana cancelled the contract and filed a lawsuit against IBM. IBM has countersued the Indiana Family and Social Services Administration for claimed deferred payments, arguing that the Daniels administration failed to anticipate the consequences of increased new applications due to an economic downfall.³⁴

Punch Card Systems and the Third Reich

One of the most controversial business relationships is said to have occurred during World War II between IBM and the Third Reich. In his book, *IBM and the Holocaust*,³⁵ author Edwin Black maintains that the Nazi government, in its determination to eradicate Europe's Jewish populations, needed a way in this pre-computer age to manage the massive trafficking of people to ghettos, detention facilities, and ultimately, concentration camps to complete the "final solution." With the movement and relocation of millions of people, number systems had to be used to identify the camps, classify the prisoners, and relate the status of each person taken into custody. These punch cards were not sold, but leased and serviced on site each month. Black points to documentary evidence in the form of lease and service contracts entered into between the Third Reich and IBM-New York regarding the lease and service of these machines. IBM has countered with the argument that it had no control over how the machines were used and therefore was in no way complicit with the Holocaust.

Foreign Corrupt Practices Act (FCPA)

As the world's businesses become more aligned to international trends and transactions, the temptation to gain an unfair advantage with foreign governments to secure potentially lucrative contracts through bribery, extortion, and other forms of corruption has become more pervasive. In response to this type of monopolistic – and often criminal – form of business dealing, the referred to as the "anti-bribery" statute – which is designed to prohibit any U.S. or foreign United

³² "100 best companies 2005." *Working Mother Media, Inc.* <<http://www.workingwoman.com/top10.html>>. Retrieved June 6, 2006.

³³ "100 best companies 2005." *Working Mother Media, Inc.* <<http://www.workingwoman.com/top10.html>>. Retrieved June 6, 2006.

³⁴ Associated Press, May 14, 2010. *The Republic*. Columbus, Indiana.

³⁵ Black, Edwin (2001). *IBM and the Holocaust: The Strategic Alliance between Nazi Germany and America's Most Powerful Corporation*. Washington, DC: Dialog Press. In 2003, the *American Society of Journalists and Authors* bestowed its Best Non-Fiction Book of the Year award to this work.

³⁴ *The Foreign Corrupt Practices Act of 1977*, 15 U.S.C. §§ 78dd-1, et seq.

States Congress enacted the Foreign Corrupt Practices Act (FCPA)³⁶ – more commonly corporation that has a class of securities registered or that is required to file reports pursuant to the provisions of the Securities and Exchange Act of 1934 from giving anything of value to a foreign official or to a foreign political candidate or party to gain an unfair business advantage against its competitors.

The dilemma facing the ever-expanding multinational corporation is the lack of absolute control over foreign subsidiaries and others who serve as potential agents for the company. While a company is generally not legally responsible for the criminal acts of its agents and employees (unless it knowingly authorizes or participates in such behavior), the FCPA does contain an accounting provision whereby the details of each foreign transaction must be reported to the Securities and Exchange Commission (SEC). In this manner, the parent can be held liable for its failure to ensure the accuracy of a subsidiary's books and records even if it has no knowledge or reason to know of the false information provided within.³⁷ The provisions of this Act are enforced by both the SEC and the U.S. Department of Justice (DOJ).

On May 21, 1997, both the New York Times and the Wall Street Journal reported that an Argentinean federal judge had indicted 10 people on charges of bribery in connection with a contract entered into between an Argentinean subsidiary of IBM and Banco de la Nación – Argentina’s state-owned bank. IBM Argentina and its former President, Ricardo Martirano, were accused of paying an estimated \$37 million in bribes to secure an agreement to computerize Banco de la Nación’s 525 branches. In July of 1997, an Argentinean court of appeals overturned the bribery charges but left the lesser charge of fraud standing. IBM-NY-USA immediately fired its Argentinean subsidiary executives in response to this scandal.³⁸

This case came directly under the purview of the FCPA and was investigated by both the U.S. SEC and the DOJ. In 2000, IBM agreed with the SEC to pay a civil penalty of \$300,000 and to accept entry of an administrative “cease and desist” order arising out of alleged bribes while the DOJ ended its own investigation.³⁹

Another FCPA incident occurred in South Korea in 2003, the facts of which were very similar to the Argentinean Banco de la Nación controversy. In both cases, local prosecutors in the IBM subsidiary's host country charged the subsidiary with paying bribes to government officials or employees of state-owned companies to secure a state procurement contract. After local investigations commenced, IBM fired its subsidiary executives. U.S. charges were never formally initiated. The primary difference between the two cases was the size of the purported bribes: in Argentina, the transfer would have yielded approximately \$250 million in new contracts, whereas in South Korea, IBM's subsidiary reportedly netted under \$50 million in new contracts for about \$300,000 in alleged bribes.⁴⁰

³⁷ 15 U.S.C. §§ 78dd-1.

³⁸ Gamble, William (September 22, 1997). The IBM Argentina Case - Comments on the Foreign Corrupt Practices Act. *Emerging Market Strategies*. <http://www.emergingmarketstrategies.com/articles/29-the-ibm-argentina-case--comments-on-the-foreign-corrupt-practices-act.html>. Last visited March 10, 2011.

³⁹ *Securities and Exchange Commission v. International Business Machines Corp.*, 1:00CV030400 (D.D.C. Dec. 21, 2000); *In the Matter of International Business Machines Corp.*, Administrative Proceeding File No. 3-13097, Rel. No. 34-43761, Dec. 21, 2000.

⁴⁰ Smith, Richard (January 8, 2004). Oops, I(BM) Did it Again. <http://www.fool.com/investing/general/2004/01/08/oops-ibm-did-it-again.aspx>, Retrieved January 5, 2011.

In an attempt to avoid the appearance of impropriety, IBM has voluntarily curtailed its involvement in foreign-based projects bidding. Additionally, it has prepared a *Code of Conduct* which is incorporated in each of its contracts and expressly references the FCPA. The truncated language of the Code reads as follows:

IBM's Code of Conduct

This Code of Conduct (Code) applies to all your activities in your IBM business relationship with us. By establishing this Code and making it part of your relationship with IBM, we are acknowledging your critical role in defining and protecting our most valuable collective asset - the trust that our clients, investors, colleagues and communities place in IBM and our business associates.

Our industry and the markets we serve continue to undergo significant changes. As a whole, these changes make the ways in which we do business more complex and constantly present new regulatory, ethical and legal issues. You must observe the highest ethical principles in all your activities in your IBM business relationship, and avoid engaging in any activity that involves even the appearance of impropriety.

This Code defines the minimum standards of business conduct and business practices with which IBM expects you to comply in regards to your IBM business relationship. If local laws and regulations are more permissive than this Code you are expected to comply with the Code. If local laws and regulations are more restrictive, you must always comply with those legal requirements.

Financial Integrity and Accounting

Accurate and reliable financial and business records are of critical importance. You should not engage in any actions that could result in conveying false or inaccurate financial information to IBM or our clients. You must ensure that all submissions you make to IBM, for example, orders, sales reporting, special bid requests, rebates, reimbursement requests, are complete and accurate.

No Wrongful Payments

At all times you are required to comply with all applicable US and local anti-bribery laws, such as the United States Foreign Corrupt Practices Act and similar local laws.[Emphasis added]. You must not, directly or indirectly, make or offer bribes, kickbacks, or other payments of money or anything of value to anyone, including officials, employees, or representatives of any government, company, or public or international organization, or to any other third party, for the purpose of wrongfully obtaining or retaining business related in any way to IBM Products or Services. This includes giving money or anything of value to any third party; where there is reason to believe it will be passed on to anyone involved in the business decision process for the purpose of influencing the decision. When dealing with others, including other IBM business associates, you must exercise reasonable due diligence to ensure that you are aware of any potential warning signals that may indicate potential issues.⁴¹

IBM and the Future: Building a Smarter Planet

IBM has made some bold moves throughout the world, demonstrating a new, innovative type of leadership. It has specifically launched a panoply of new programs, of which only several will be highlighted. These examples include:

Smarter Planet (CityOne IBM)

This particular program addresses the aging infrastructure, inefficient banking, water quality, transportation, communication, and crime control concerns which exist primarily in cities (in

⁴¹ See <http://www-2000.ibm.com/partnerworld/pwhome.nsf/weblook/pubjoinmemctragreementcode.html>. Last visited March 9, 2011.

which over half of the world's population now resides). Data is collected and analyzed to project when and if roads, bridges, and highways are dangerous and in need of immediate attention and repair. Data indicating shifting demographics as well as peak times of commuting, communicating, and monetary and service transactions are gathered, interpreted, and translated into potentially new policies which are designed to better the citizen's quality of life as well as improve customer services. With respect to crime control, IBM has developed the technology to detect gunfire which reports such suspicious criminal activity to the nearest police precinct even before a "911" call can be made.⁴²

Smarter Food

In January, 2011, the U.S. Government passed the Food Safety Modernization Act,⁴³ giving the FDA the mandate to implement a science-based system for producing, processing, transporting, and preparing foods in ways to maximize safety for the consumer. Paul Chang, director of IBM's international "traceability" system, is ready to tackle the challenges posed by the new law.⁴⁴ By using its established pharmaceutical tracking program, IBM already possesses the ability to trace food products from farm and factory to food stores. With ever increasing product recalls (152 billion per year) and resulting deaths from tainted products (5,000 per year), IBM, in cooperation with the Food and Drug Administration (FDA), should be able to determine the precise movement and storage of products in the food chain and invoke a recall to minimize outbreaks of food-borne illnesses.⁴⁵

The Act will attempt to establish over the next two years exactly how the tracking is to be accomplished and may likely lead to the promulgation of new FDA requirements which will in essence, require farmers and manufacturers to purchase computer systems to monitor and track shipments, using labels and scanning devices as part of this process.⁴⁶

Smarter Water

It has been said that water is quickly becoming the world's most precious commodity; that instead of living in a petroleum-based world, we are now living in a water-based world. Sources of clean water are indisputably becoming scarcer and more polluted as the world's population continues to escalate at unprecedented, unsustainable levels. One phenomenon which has demonstrated this serious ecological change is Lake Chad in North Africa – once one of the world's largest fresh water lakes. As of the date of this writing, Lake Chad has all but dried up, leaving hundreds of thousands of people without livelihoods derived from fishing and farming and without a reliable source of drinking water.⁴⁷

It is important to note that of the world's global water sources, only 3% is fresh water and 21% of this 3% is found in the Great Lakes of the U.S.⁴⁸ This sustained threat to these scant resources which support all life is beginning to attract more publicity and attention and to spur creative

⁴² See <http://www.youtube.com/watch?v=Tmf0ugQrDFk&NR=1>, Retrieved January 5, 2011.

⁴³ H.R. 2751, S.510, signed into law by President Obama on January 4, 2011.

⁴⁴ See <http://www.ibm.com/ibm100/us/en/icons/foodsupply/transform/>, Retrieved March 5, 2011.

⁴⁵ Layton, Lyndsey (January 24, 2011). *Washington Post*. <http://www.washingtonpost.com/wp-dyn/content/article/2011/01/23/AR2011012302238.html>, Retrieved March 4, 2011.

⁴⁶ McQuillen, William (2010). IBM, Oracle May Gain on U.S. Food-Safety Law's Tracking Mandate. *Washington Post*, Dec 28, 2010.

⁴⁷ "Lake Chad: Experiences and Lessons Learned in Brief," February 27, 2006. http://www.worldlakes.org/uploads/06Lake_Chad_27February2006.pdf, Retrieved February 15, 2008.

⁴⁸ "Great Lakes-US EPA," June 28, 2006. <http://www.epa.gov/glnpo/basicinfo.html>, Retrieved February 19, 2011.

resolve. With respect to national action, some countries are reacting to this crisis more quickly than others. For example, Israel maintains a 75% water recycling program while Los Angeles, California, U.S. only recycles 3% of its water – and this is primarily done to sustain the city's landscaping.⁴⁹

In response to this encroaching worldwide crisis, IBM has undertaken certain progressive steps in furthering sustainable business practices with respect to water conservation and monitoring by partnering with the Beacon Institute for River and Estuaries to provide real-time watershed data from the Hudson River that scientists, educators, and policymakers are able to access for public education and policy development.⁵⁰ IBM's monitoring of the Hudson River – often noted as the most instrumented river in the U.S. – is primarily done through solar-powered stations designed to gather and synthesize information regarding climate conditions, water flow rates, and water particle compositions. This data provides the necessary information to alert local communities with respect to toxic particle presence, to show rates of erosion which could possibly alter the course of the water source, and to monitor unusual flow rates which could lead to flooding.⁵¹

Smarter Transportation

Bus, train, car, plane – the most common forms of transportation on land, air, and sea. With population, urbanization, and globalization increasing at unprecedented rates, there is a need now more than ever to predict consumer demand, enhance the customer experience, optimize current modes of transportation, and create new ways of traveling that are efficient and environmentally-friendly. This is especially important as the number of cities with populations in excess of one million have now topped 476 (up from 83 in 1950) and the current forms of movement are unproductive, inefficient, and ecologically unsustainable. For instance, in 2007 alone, U.S. road congestion wasted 2.8 billion gallons of fuel and 4.2 billion hours of commuting time. IBM has already explored solutions to this waste of resources by examining available alternatives. One such option would be to put more emphasis on rail transport as one ton of rail freight can be moved 423 miles using only one gallon of fuel while a single freight train can replace 280 trucks. The safe, secure, and clean movement of passengers and freight is critical to the uninterrupted provision and delivery of food, education, healthcare, retail, and manufactured goods and services and is one more program of IBM's challenge to build a smarter planet.⁵²

Smarter Communications

With increasing interconnectivity between people worldwide, news of local, national, and global crises is communicated within seconds and populations are given the more time to react. However, with respect to the more rural areas of not just the U.S., but of emerging countries and markets, extending and expanding broadband services is what IBM is attempting to accomplish. Broadband over Power Line (BPL) has proven to be a cost-effective solution for providing high-speed Internet access in such underserved and remote areas. BPL technology gives its users

⁴⁹ Wesoff, Eric (December 8, 2009). The Myth of VCs and Water Not Mixing. <<http://www.greentechmedia.com>>. Last visited January 5, 2011. See also <http://www.youtube.com/watch?v=vJGq_oSb1A8&NR=1&feature=fvwp>.

⁵⁰ "IBM." <<http://www-935.ibm.com/services/uk/bcs/pdf/ibm221602greensigmafinal.pdf>>, Retrieved May 23, 2010.

⁵¹ See <<http://www.youtube.com/watch?v=y3CZQOtVx6s>>, Last visited March 9, 2011.

⁵² See <<http://www.ibm.com/smarterplanet/transportation>>, Last visited March 9, 2011.

access by sending a radio frequency signal over existing power lines, achieving faster uplink speeds than DSL or cable connections. Many utility companies either already offer, or have the potential to offer, the ideal infrastructure to expand Internet services, by providing the wiring that extends to virtually every home and building in these areas.⁵³

Smarter Healthcare

In the wake of the enactment of the *Patient Protection and Affordable Care Act* ⁵⁴ (PPACA) in March of 2010, additional attention was given to the need to reduce medical costs and to increase quality medical service to more patients. IBM is currently consulting with government agencies, healthcare systems, and private healthcare insurance companies to consolidate and digitalize patients' medical records, eliminating the wasted time and financial resources it currently takes to access a patient's records, thereby reducing duplicated procedures, missed diagnoses, and unnecessary treatments. IBM is also working to provide basic medical services and information online, obviating the necessity for the patient to travel to an emergency room or clinic unnecessarily. IBM's revamping of how medical records are stored includes an update of its XIV and DS8000 products which are designed to store petabytes of information and automatically encrypt storage drives.⁵⁵

Smarter Energy Grids

IBM is currently in the process of helping to develop alternate sources of energy, consolidate existing utilities, reduce energy usage, and identify energy obsolescence in an attempt to reduce greenhouse gases, wean communities from foreign oil, and instruct populations on better ways to consume responsibly. IBM's "smart grid" ideas aim to eliminate or reduce the possibilities of black and brown-outs while focusing on the development of new architecture to accommodate integrated and varied sources of clean energy. As the deployment of solar, hydroelectric, and wind technologies are accelerated, IBM is also helping businesses and governments maximize service levels of existing utilities, better manage the security of these systems, and execute network monitoring and management functions — all while meeting regulatory requirements and cost objectives.⁵⁶

Smarter Governments

IBM has been offering its data analyses services from the inception of the company. The U.S. government has used its data analysis services and ever-evolving equipment to gather census data, actually securing one of the largest contracts with the government during the height of the Great Depression. With the passage of the Social Security Act of 1935, and the need to account for employment records of over 26 million people, IBM, represented the only bidder as it alone had the tabulating equipment required to complete this task. Throughout the years, IBM continues to use its resources for governments at all levels, helping to meet public needs and accommodate increasing populations.⁵⁷

"Watson," Smarter Cities Challenge, and the World Community Grid

⁵³ See <<http://www-935.ibm.com/services/us/index.wss/summary/gn/a1031760>>, Last visited March 9, 2011.

⁵⁴ Pub.L. 111-148, 124 Stat. 119 (2010).

⁵⁵ Greenberg, Andy (2009). IBM's "Smart" Moves. *Forbes.com*, February 9, 2009.

⁵⁶ See <<http://www.ibm.com/grid/>>, Last visited March 9, 2011.

⁵⁷ See <http://www-05.ibm.com/uk/ibm/history/interactive/ibm_history_2.pdf>, Last visited March 14, 2011.

By now, most readers have been introduced to “Watson,” IBM’s computer challenger on *Jeopardy*. Programmed with myriad algorithms, this computer’s “knowledge” potential was demonstrated in its recent victories over two of the best former *Jeopardy* contestants. Through the use of Watson, IBM is helping to generate revenue for charitable and worldwide research causes. It has also engaged in a relatively new program entitled “Cities Challenge,” whereby “cities ask us to help them solve knotty issues by bringing in half a dozen high level IBM consultants who spend three weeks in the city, learn about the issues and make recommendations.”⁵⁸

As this year represents IBM’s centennial, the company is encouraging every member of its workforce to donate a minimum of eight hours’ community service time. In addition to its commitment to volunteerism, IBM has also created the “world community grid” which “brings people together from across the globe to create the largest non-profit computing grid benefiting humanity. It does this by pooling surplus computer processing power. We believe that innovation combined with visionary scientific research and large-scale volunteerism can help make the planet smarter.”⁵⁹

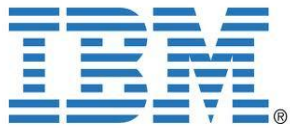
Conclusion

As there is no “perfect person” in our global village, there are certainly no perfect businesses either. Companies are simply an amalgamation of people furthering certain preordained business objectives. People falter. Businesses commit violations. But what is important to note is that those people and those companies who fail to ascribe to an ethical code of conduct or are averse to learning from past mistakes and poor decision-making habits are usually predisposed to repeating such ill-advised and often disastrous behaviors and actions.

IBM certainly has had its share of setbacks and questionable practices. But unlike many companies its size, it aims to venture into markets to aid the planet and to better peoples’ lives. Responsible innovation and creativity are the keys to this type of success as long as such activities are closely evaluated and monitored — and modified, if so warranted.

⁵⁸ Email communiqué with Sandy Dochen, IBM, March 15, 2010.

⁵⁹ See <http://www.worldcommunitygrid.org/>, Retrieved March 15, 2011.



Building a Smarter Planet

The Interview:

On December 9, 2009, two officers of IBM – Sandy Dochen, Manager, Corporate Citizenship & Corporate Affairs and Jeff Tieszen, PR Manager, Western U.S., IBM Americas – consented to an interview for the JVBL at the company's Austin, Texas headquarters.

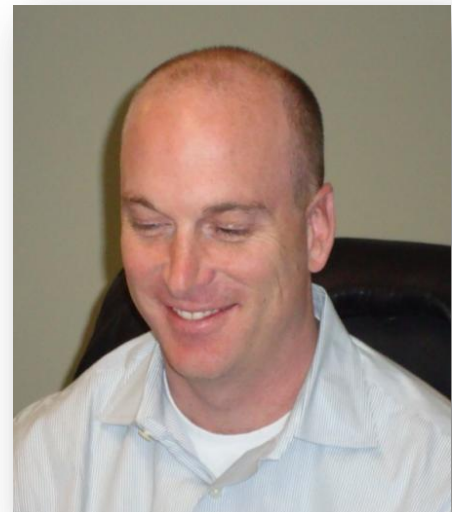


**Sandy Dochen, Manager,
Corporate Citizenship &
Corporate Affairs**

Q: *I understand that you (Sandy Dochen) are the Manager of Corporate Citizenship and Affairs with IBM. How long have you held that position?*

I have been with IBM for almost 12 years and this function has been around since before I was. It was called *Corporate Community Relations* and the name changed about two years ago to *Corporate Citizenship and Corporate Affairs*. We are part of the *marketing organization* so it involves marketing, communication, and citizenship. So we are now the “C” in the MCC.

Q: *It appears from IBM's 2008 Corporate Responsibility Report (CSR), that the company began concentrating its efforts in assessing the social and environmental – as well as the expected financial – impact of the company by the early 1970s. At a time when the Senate is contemplating the first climate control act in the United States (after have already being passed by the House), it appears that IBM acknowledged that there was a problem long before any other company of this size and global impact. Reviewing this entire report, it appears that the company uses the metrics of*



**Jeff Tieszen, PR Manager,
Western U.S., IBM**

the Global Reporting Initiative to self-audit its performance?

While that is not my primary area, we certainly support it.

Q: *My inquiries transcend environmentally-related matters. How would you define corporate ethics and how would that definition apply to the operations of IBM?*

With respect to corporate ethics, a company has to run in the best interest of its shareholders, stakeholders, and customers.

Q: *How do you define shareholders as opposed to stakeholders?*

A shareholder is someone who is a stockholder, an owner of the company.

Q: *So someone with a financial interest?*

Yes. I have a financial interest in this company. I own a few shares. But it's not just bottom-line considerations alone – it's about the big picture, how I want to see the company run, how I want to be enabled to do things that the company sees is in the public interest – the world's interest – and how I believe that in my own belief statement. So if my own belief system intersects with that of the company's, then I am going to be much happier and productive and really believe in it. So as a shareholder, it is a share of the company's values to me as much as it is how many shares of stock I own.

Q: *There appears to be a growing trend with financial investors to identify more socially responsible stock and not simply calculate which companies will produce the largest dividend in the shortest period of time. Would you agree?*

Frankly, we have folks who talk to some of those socially responsible investors and that's an audience. That is a stakeholder or shareholder group who is very important.

Q: *Let's look at the demographics of IBM. IBM is headquartered in New York, however, there is this extensive complex here in Austin which I believe is replicated in Toronto, San Jose, and Boulder as well?*

We are in 170 countries with large facilities in the States. The largest one is Research Triangle Park in North Carolina. There are about 13,000 facilities. New York has the second largest which is located throughout the Hudson Valley, because that is where the company started. Third is Texas. We have about 11,000-12,000 people in Texas and about half of them are here in Austin. Fourth, I guess, is California. Boulder has a pretty good size facility and our facilities in Burlington, Vermont are or at least were the largest private employer in the state of Vermont. IBM is also in Rochester, Minnesota.

Q: *In light of this ubiquitous presence, would you say that a similar philosophy is shared throughout – that is, one permeated by the “triple bottom line” approach – one*

imbued with ethical considerations? Or do you believe that as a company grows larger and larger it becomes more difficult to maintain control and much easier to deviate from the standard?

No, I don't think so, because this company was grounded in these values before the early seventies.

Q: ***And how about before the early seventies?***

IBM was the first company to take certain initiatives long before government regulation. For instance, IBM hired our first woman in the 20s and had the first woman vice president. IBM had a different voice; it hired minorities long before civil rights legislation. We used to have a big company, a big factory in Lexington, Kentucky, and in the fifties, it just declared to that state that it was going to integrate. On its own, IBM was determined to have an integrated diverse workforce. That was a little bit edgy at the time especially in Kentucky prior to civil rights laws.

Q: ***If we were to go back to World War II, there is evidence that IBM's CEO at that time, John Watson, Sr., was leasing IBM punch card systems to the Third Reich. Is that a myth or a fact?***

You know, I don't know enough about that. I know of a fellow who wrote a book about that a few years ago and that was a big hub bub. You know I am Jewish, so obviously I don't have any application or any love for the Third Reich but I really can't speak to that because I wasn't there. Let me give you an interesting piece of information. We have this program today, you have probably read about it, *Corporate Service Corps*, and there is this part of it which is for IBMers, non-executive and non-management. We have just started an executive *Corporate Service Corps* program, and it was formally announced in December of 2009, although it has been brewing for several months. I got to read some of the applications which are pretty exciting. About 30 people – all executives – are going to go to cities and work with their city management to really look at systemic kinds of functions and how to build a *Smarter Planet*. The first two cities that were chosen were Ho Chi Minh City and a city in Poland, not Warsaw, not Krakow, but another one that I would have to look up. Here are two cities that fifty years ago people would say, "Oh my god, you are sending people to those communist countries?" We are past that. Those countries who used to be considered enemies are now friends. We have business in Venezuela but that does not mean we are in with Chavez.

Q: ***But on the flip side, the argument has been advanced that many corporations have been above any national allegiance and have transcended political and social platforms, all of which could possibly interfere with making a profit. So when you say IBM has permeated former communist countries, and if there was something true back in World War II concerning an alliance with the Third Reich – at least with respect to furnishing the data systems for monitoring those in concentration camps – could this not substantiate the premise that the larger the corporation becomes, the less allegiance there is to any type of political philosophy? Instead, what matters is the bottom line,***

period, plain and simple. It might look good that IBM is doing business with former communist countries, but how much of that is profit driven?

We are in those two countries, because they are growth markets. Those are emerging markets and we want those IBMers to really understand what an emerging market is and be a better global citizen. It is an amazing experience for them and it's a terrific priority for the company. So are we above nation-building or systems of government. When you are in a hundred plus countries, I suspect one reason you admire us in this country for being ahead of the pack is because Europe is ahead of the other continents in some of its environmental regulations and we are familiar with that. We have dealt with that and no company likes too much regulation, right? There is always a balancing act. We understand that; we have experienced it and we can be big enough to figure out how to work it with respect to our current business priorities. We can help our clients learn how to work with it. A lot of our business is on the consulting side. Most of these things can be opportunities for business. Rather, we assume a position that says: "Let's see how we can make this work." We do lobby what we advocate for policies that are judged to be in company's interest, but you know when something happens, we learn to live with it. We wouldn't be almost a hundred years old if we couldn't adapt.

Q: ***Has the service sector of this country largely replaced the manufacturing?***

I think we started that in the IT industry. I know that sounds a bit cocky but maybe we didn't quite start it. We have been on that for years. It used to be a lot of our business came from hardware, you know computers, servers, etc. A lot of the software you could say supported the hardware; it's the operating software which is integral to running the servers. Well, hardware is twenty percent of our revenue now; mostly it is split between software...

[Jeff Tieszen]: Services that shifted primarily under the influence of Lou Gerstner.

Lou Gerstner and Sam Palmisano have really carried it along.

Q: ***When did that occur?***

Gerstner was 1992/93 and Palmisano was six or seven years ago, now. See, we don't sell these any more. When you think IBM, you think IBM computers; we simply don't sell those anymore. We could not make any money on them; the margins were terrible. Dell probably helped to contribute to that, because they figured out how to do it better, although they (Dell) are having issues now.

Q: ***In view of the job situation now, is IBM hiring?***

We are always hiring because there are always people coming and going or people retiring or we are expanding into new things. Our hiring is down a whole lot from a year or two ago because of the recession.

Q: ***Have there been any major reductions in forces lately?***

There are always people coming and going; there might be little groups, sometimes.

Q: *But I am referring to more than a historical pattern of people who retire in a natural progression. Since the recession really began in early 2008, has IBM experienced a major reduction in force at any of its different locations?*

What is your definition of major?

Q: *Anything that is abnormal; that deviates from historical patterns.*

[Jeff Tieszen]: We are always shifting resources, but I wouldn't classify it as anything abnormal.

Q: *Would you say then that you have been basically recession-proof?*

Oh, I don't know that anyone is recession-proof, but I will say that because we are really emphasizing and gearing up services and people in emerging markets like India and China that our overall number of employees has stayed about the same. We are close to 400,000 and that has been the case for at least a couple years; it's always fluctuating. Now are there fewer people in the States than there were three and five years ago? Yes, and more now in India. We have sold a lot of manufacturing; we just don't do it anymore. We have outsourced certain services.

Q: *To which countries do you outsource?*

That is hard to generalize, because there are people in Tulsa, Oklahoma who are people who work for IBM but are assigned to Williams, an oil company. We are the IT department for a lot of companies. So they have outsourced to us. So where we have those people depends on where the customer is and/or where the job is – where the person power would be to keep the customers' expenses down.

Q: *When you say that twenty percent of what IBM still does is still in hardware, you are obviously still doing some manufacturing. So where are products produced?*

Some of it is still in the States; some of it is with IBM on the big servers.

Q: *And outside the United States?*

I don't really know. We used to have a huge laptop plant in Guadalajara, Mexico. That was big – six to seven thousand people. While we still have a lot of people in Mexico, they are doing other things – serving customers the way we do elsewhere.

Q: *I was wondering if these manufacturing plants are basically located in third world countries or as you say, emerging markets. Is this outsourcing a result of the influence of unions and higher wages in the U.S.? Is it to avoid such agencies as the EPA and OSHA?*

We calling them “emerging” because a lot of these countries are still growing and that is where our biggest growth percentages lie. We don’t have unions at IBM; even in heavy manufacturing, we don’t have unions. At least I think we never have.

Q: *Has there been any attempt in the past for the creation of a union? Or does IBM disfavor a worker’s union?*

When you read this [IBM’s *Corporate Responsibility Report*] and you read about our benefits, people are largely happy. We take internal surveys. Our benefits are as good if not better than most companies of any size.

[Jeff Tieszen]: We show up on a lot of “Best Places to Work” surveys. *Working Woman Magazine* always places us as number one. Sure, you can’t work here twenty or thirty years and get an old fashion pension anymore. That was done away with a few years ago right after I started, as a matter of fact. It became a competitive issue because the Dells and others don’t have those; they started fresh without those. If you look at our 401k programs and our health insurance benefits, health care costs are going up. Our share of what we have to pay for our dependents has gone up a bit each year. IBM still shoulders most of that burden and we are talking in terms of hundreds of millions and billions of dollars worth of benefits that IBM pays. I will tell you another neat program. This is an example of real innovation and we have something which is in my organization so I know a little bit more about it. It is called a *Personal Learning Account*. This just started about two years ago. I can do a payroll deduction and set money aside. It’s not pre-tax like IRAs, but we are working on that in Washington, but for now, it is post-tax. I can save up to one thousand dollars a year I think it is, and this account builds a little interest like a little pension fund if I don’t use it. I can go take a course somewhere. I can take a Spanish course at the community college. We are actually offering Spanish right here on site through Berlitz. If I want to do a flower arranging course or an accounting course and it is going to help my skill level and be more productive, I can go do that.

Q: *Is it financed by that savings plan?*

With an IBM 50% match. So I put in some money and IBM matches to 50%, up to \$500 per year – that is the IBM maximum. Any regular employee can sign up for one of those.

Q: *How about an executive MBA program? Is there any funding especially for upper level management?*

It depends on who the people are – there people who go to graduate school gratis of the company. It is part of their development plan; they might be in a leadership track or a management track, something like that. I don’t know how many. In fact, here is something we did about in November, 2009. The University of Texas (UT) at Austin has an Executive MBA, a Technology Transfer Masters Program. We have a liaison with UT. UT is a very important partner because we hire a lot of people from there; we have a little open house where all those UT departments came to promote themselves, so to speak, during a lunch hour. We invited

everyone on site to come learn about these options that they could take advantage of if they want to get a degree or something like that. We love that; we spend tons of money on education and continuing development. I have access to so many online courses which are free, not necessarily for a degree, but which allows me to do a lot of learning. We deliver tons of training per year.

...[A] lot of what we do is stretching the boundaries of knowledge...

Q: *How would you assess the extent and nature of IBM's research and development occurring now at each one of your major facilities?*

We spend about 6 billion a year on R&D. You could say a lot of what we do is stretching the boundaries of knowledge. We have a strong research division that is based in New York. The "Watson Research Lab" is famed for its amazing work. We have eight of what we would call "advanced research labs" around the world; one of them is here in Austin. The smallest of the eight is located in this building and employs about 60 people.

Q: *I noticed that towards the end of your corporate report, you have a "sharing plan" with respect to your patents concerning environmentally-friendly practices. Are the patents which are openly shared with the public only related to technologies that, let's say, reduce carbon, create less landfill waste - intellectual property basically restricted to that field?*

No, I wouldn't say it is. We are a big advocate of open source, so a lot of our patents are operating openly because we want the whole world to be an open source. A lot of our patents generated by our lab upstairs – and I don't know if these are shared – have to do with semiconductor design. I can't tell you if those are shared or not, but probably not. Yes, a company needs to protect its intellectual assets and we are big on that. On the other hand, we want other customers and organizations to take up these technologies and to advance the world. This is part of our values statement; we want to be responsive to customers and produce innovation that matters for our company and the world. If more organizations have access to our know-how, then they are likely to buy more of our products. There is a business advantage to that.

Q: *Other companies I have visited maintain different incentive plans for new inventions. They downplay the hierarchy of upper level. Is there something similar in nature here at IBM?*

This company has substantial longevity. I was somewhere the other day and someone said, "Oh, I worked for IBM for 35 years." We have been here for so long; this facility opened in 1967 or so

and there have been generations who have worked here. Now, with respect to younger folks and in light of fewer pensions, the mentality of “Oh, it’s my advantage to work 30 years versus 10”—there is less of that now. That is true everywhere; it’s partly the millennials and others. We will see how they develop when they get a little older.

Q: *If I were to advise my business students about what areas or fields of concentration in undergraduate studies they should pursue if they wanted to work for IBM, would you recommend strictly engineering?*

No, there are two ways to answer that and that is a very good question. We hire a lot of EE (Electrical Engineers) and those in Computer Sciences – those are the two larger ones. But more and more, we are hiring business graduates and MBAs, because remember, we are following a role of consulting. We want people who are “T” shaped. “T” shaped people are the ones that have the technical knowledge, but also have the industrial sector knowledge. So if we win a big contract to do the business consulting or the whole IT and related services for XYZ bank, we want people who are serving that account to understand the technical requirement, but also know about banking. So we will hire people who have been in banking or insurance or education – their knowledge base – and they learn about the technology, not necessarily be able to produce it, but to be able to deal with the client representatives. We need people who are articulate who are going to make presentations and so we want it all.

Q: *Our business school recently implemented a Spanish in Business Certificate program. According to the 2000 U.S. Census Bureau statistics, the Latino population is especially increasing in the Southwestern states. The knowledge of the Spanish language has become a necessary business skill in addition to the articulation needed in dealing with representatives.*

I just came from a meeting with two of our school districts, the Austin School District and another one just north of here, talking about what they do about bilingual education. They are going to teach a language. It is idiotic as a country that we don’t teach foreign languages until middle or high school; we should start it on day one like in Europe.

Q: *I reviewed your philanthropic endeavors and your clean water initiatives which are contained in your report and noticed your usage of Global Reporting Initiative metrics. IBM opted for an “A” level of reporting which is self-reporting without an independent audit. As you may or may not know, in order to be audited you can either use one of GRI’s teams or an independent third party auditor - typically an accounting or engineering firm – in an attempt to acquire a “+” after the “A.” I understand that one of your major facilities in Boulder has been recently retrofitted and subsequently LEED certified. With this progress, has IBM considered an independent audit in its sustainability reporting?*

We will pass that along. Let me mention something about water since you are interested in it. IBM has a nature conservancy project. From a product point of view, we do a lot of work with water systems. We have the knowledge and expertise to improve water systems, learn more

about where their leakages are, and monitor their systems. There is an IBM subsidiary company, a company we bought called “Maximo.” In fact we recently issued a news release concerning the Lower Colorado River Authority (LCRA). The LCRA basically says it owns the Colorado River. The lakes that run through Austin are a part of the Colorado River system. There are two Colorado Rivers; this is our version of the one in Arizona. We have a contract with the LCRA so that we can help them monitor their dams and other facilities for less money. It saves them from literally having people driving around visually inspecting; you can have sensors on a lot of your assets. When something goes wrong or something shuts down you learn about it in a control room and you can go out and dispatch someone to fix it. That is an example under IBM’s *Smarter Planet* idea where we say that because the world is becoming more interconnected, it should use this knowledge, this technology, this expertise, throughout organizations, institutions, water and energy systems, food supply chains, educational operations, and hospital and medical fields.

Q: *How would you best describe the “corporate philosophy” of IBM?*

We are the corporate responsibility of all of IBM. You don’t have to be in my department to practice corporate responsibility.

Q: *Since you are in charge of certain states, doesn’t that help you more closely monitor and control any deviations from ethical policies?*

We keep governance uniform; that way we can carefully choose our local partners. So you know a lot of companies write a lot of big checks and that’s great. We don’t write a lot of checks around here. We determined years ago that we are a technology company and our biggest asset is these really smart people. How do we parlay that knowledge of what we are doing and focus it on community needs? We’ve always wanted to be responsible and responsive in the communities in which we live and work. So we have *Corporate Service Corps*. People have to apply for this program; there have only been about five hundred to six hundred people accepted so far. It is harder to get into than Oxford at least based upon the percentage of applicants versus acceptances. One of the areas where you would score a couple points in is whether or not you have been a volunteer for the “On-Demand Community Program.” The program is our internal portal and an IBMer can get a community grant of up to one thousand dollars or at least the equivalent in technology. While IBM can’t pretend to know all the organizations in need or offer support with direct corporate giving, my emphasis and my budget are dedicated to all the non-profits that IBMers are interested in. We are so diverse. You are empowered to go be a volunteer – you are likely one anyway – and if you perform at least eight hours of volunteer work a month for at least five months in a calendar year, you can request one of these grants. There is a form you fill out online and the charity must be a 501(c)(3). So this is our knowledge; our smart people can use some of this information and really help enlighten their organizations while learning themselves. They are gaining expertise.

Q: *This appears to be smart business as well. IBM used to sell computers; now it sells intelligence.*

“Intelligence” and “Innovation” both keep the “I” in there.

Q: *And this intelligence is exhibited by individuals who you believe have experienced different cultures, traveled to many parts of the world?*

That is why we have this program. A lot of people who apply have travelled as part of their business and most of them are more worldly. This is another experience to complement what they have done and enlarge it even more.

Q: *Does IBM have any programs regarding landfill waste? What happens when computers become outdated? How does one dispose of them? Most charities will not accept them unless there is proof that the hard drives have been wiped and since that service is not free, the computer is often discarded. And E-waste is becoming more and more of a problem. Does IBM have any recycling or reclamation centers? I am aware of IBM's incorporation of spent microchips in solar cells.*

My first way of answering that is I don't know exactly what we are doing. Because again, we are not as much of a manufacturing company anymore. It's not that we are not responsible.

Q: *I was wondering if there could be a SMART Landfill where landfills are mined to recover items bearing the IBM logo.*

I can't answer that.



Q: *With all the buildings that IBM owns throughout the country, how many would you say are LEED certified now? Are you dedicated to LEED certification for all new additions, retrofits, and new buildings?*

Again, that is not my area of expertise. I will say that one of the first LEED certified buildings in Austin is ours, the Tivoli Building. That was in 2003. Tivoli is one of the software operating subsidiaries; it was named one of the top 10 green office buildings.

[Jeff Tieszen]: I don't know how many other LEED certified buildings we have; I do know that we just opened up a facility in Dubuque, Iowa. It is a services facility and employs about 1300 people. We moved into a historic downtown building there, the Roshek building, and completely retrofitted it to make it LEED certified.

Q: *Can you explain other “green” projects you are currently pursuing?*

We have a whole sustainability press kit online. Here is something we are doing right here. There is a lab in one of the other buildings called “a green data center” – it's a big deal. We have one –

it's not like the one in Boulder, Colorado, it's a lot smaller, but that lab supports software product demonstrations of IBM presented all over the world. In a year and a half or so, they have expanded the output of this lab, the capacity, and they have reduced power consumption by about 30 to 40 %. Some of the reduction is attributed to the installation of new equipment. They now have software programs that better monitor those servers. So when a cooling system goes out – some of those are water-cooled as well as air-cooled – that machine will automatically shut down. They can monitor the operations. We are doing that for own operations to save money but we are also doing this as a product/expertise that we sell. That is a sustainability at play. Internally, we developed this technology we use for ourselves. And if it is good enough for us, we want to sell this, we want to share it.

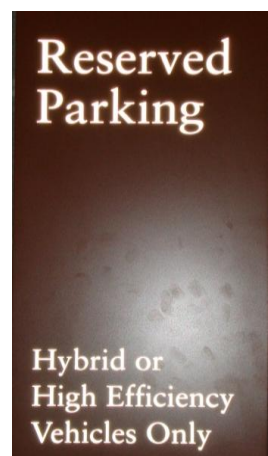
Q: *Let me ask you about smart grids. I understand that you have received commendations from the EPA and also realize that the statistics are amazing in terms of the waste you are saving. American Electric Power (AEP) has a smart grid. Are you familiar with its system?*

They are a customer. They produce energy from waste. They were here about a month ago because we did a demo for some people in Austin about this system called “Maximo” – this asset management product we have.

[Jeff Tieszen]: We also just last month launched a consulting service for sustainable assets for clients.

Q: *In terms of your consulting services, it appears that IBM is expanding into different areas. You've launched the “Smart Traffic” program, partnering with the City of Chicago. Apparently, computer-generated sensors are installed in cameras mounted on traffic lights and have the ability to register shotgun blasts before a 911 call is placed, alerting the nearest police precinct. IBM is lending this innovation and intelligence to crime prevention and now it appears, more recently, to smarter transportation routes and means.*

Let me tell you about something else that is happening here right now. Daimler – another good IBM customer in Germany – has a system that they just set up with the city of Boston, and we are going to be a part. They have the little smart cars, the little two-seaters. If you go downtown, you will see them on the corners. They are loaners, unlike other loaner programs in other cities that I am familiar with. These are one-way loaners. You can take it to your destination and when you are done, you don't have to keep the clock ticking while you are at the doctor's office and come back. So you drop it off you when you have reached your final destination and it is charged to your account. We will volunteer some parking spaces when they expand the program out here, you bet we will. That would be so exciting. And I think that the parking garage here even has some signs reserving parking slots for hybrids.



Q: *As I understand, IBM is working with supply chains and is now, apparently, entering into the distribution phase as well. How does IBM make distribution smarter, especially with respect to different chain grocery stores? Is there a way to track if certain items are grown locally to help stimulate the local economy while saving distribution costs as well?*

[Jeff Tieszen]: Smarter supply chains as they apply to food tracking and direct traceability.

And greater safety.

[Jeff Tieszen]: That is a big deal for IBM.

Q: *Who are your typical customers in IBM's food chain tracking program?*

[Jeff Tieszen]: We are working with the largest food distributors all the way to seafood farms in Vietnam. We help all along the supply chain to help them better track their food supply so that consumers know where to go.

Q: *So when did you start this?*

[Jeff Tieszen]: Radio-frequency identification (RFID) technology has been around for years and we have been involved in that from probably the get go. But we have expanded that out to a lot.

Again this whole *Smarter Planet* theme of ours enables us to expand beyond just marketing. It is a way to really look at our business and how we deliver these services from a thematic point of view. So with the *Smart Grid*, I can tell you we are working with Austin Energy – which is the publicly-owned utility here, very progressive, very green. We are also working with CenterPoint Energy in Houston and a lot of others, including Encore in the Dallas area. We are doing things so in time, when you're at home, you will be able to look at your information and if you turn your thermostat up two degrees, you will be able to determine how much money you will save. You know, it is all about consumer information.

We are working toward a lot of those things with these customers, so that is an example of the smart grid. We are helping manage traffic congestion in Stockholm. And with respect to patents that IBM secures? IBM earns more patents every year and for the last 6 years more than any other company in the world, period. We have been number one for about 15 to 16 years. In 2008, we earned about 3000 or so. We earn more than double the next company. This Austin site produces more patents than any other single IBM site in the world, about 600, something like that.

Q: *That's impressive.*

New York generates more than Texas. With respect to a single site, we are number one; we have the all-time IBM patent champ holder in an ugly building across the street, about 400 patents to

his name. So the point of that is you can't just have a patent; you have to do something with it of course. You got to make it work.

Q: *Well at least you have a twenty-year monopoly.*

You get these patents for these operating systems and these chip designs and all these things that sound very esoteric to you and me, but they find their way into these applications. So that the inventions have happened a year or two or three or four before and then you start integrating and applying them and that is how you come up with these products.

Q: *Do you ever make the decision however, especially with a major discovery or innovation, not to patent it and keep it as a trade secret and possibly get more longevity out of it?*

We are working on patent legislation. That is one of our major legislative priorities. We have patent lawyers all around the country. That is a huge thing in Congress for us to be working on right now. We are working on it; we are waiting for the Senate to bring it up to the floor.

Q: *Does IBM have any lobbyists in Washington? Any position on cap and trade?*

We are not involved; we are neutral on that. We talked about that on conference calls because we talk with our government relations people.

Q: *And healthcare? With the call to computerize a patient's medical records, does or will IBM have a role in this shift of paradigm? Will IBM remain neutral on this?*

No, no, no. We have said some things concerning healthcare legislation and our folks are working on it, and it is changing so much by the day that I can't tell you which version is where. We will respond to whatever system emerges; we have major insurance companies which are major customers and we have government agencies as major customers. We can work with the system they put together. Yes, we have some company preferences, I know we do. Cap and trade is the same thing; cap and trade could be a huge IT (information technology) opportunity, because you have to track all of this stuff. We don't have a dog in that particular hunt (Texas saying) from a policy or a political point of view.

[Jeff Tieszen]: We have been focusing on making more efficient in terms of technology the organization and collection of patient records. The Obama transition team came to IBM before he took office and said, "Here are three areas we want to look at investing \$30 billion in stimulus funding. We are interested in smart grid, smart healthcare, IT, and broadband technology. They came to us and asked us to do a synopsis of how that can best be spent.

Q: *Are you currently working with some of this stimulus money in those particular areas?*



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Oh, we are trying to bid on it like everyone else. Oh yea, it is a big thing.

Q: *Has IBM received any stimulus money?*

Uh... I can't tell you.

Q: *Purdue University, as one of the largest engineering schools in the country, was awarded \$50 million.*

Well, a lot of how this works, is a Purdue University will receive stimulus money and if they need to update their whole IT system because it helps them with energy efficiency or

something like that they will put out a Request for Proposal (RFP) and if we are smart, we will be working with Purdue. Our client reps will show them what our capacities are and the extent of our capabilities.

[Jeff Tieszen]: The same thing occurs with state governments. They are all vying for stimulus funds and we would go ahead and take bids for transportation, healthcare, or whatever needs are present.

Q: *Do you apply your philosophy with respect to determining who your customers will be? For instance, would you ever turn down a prospective customer due to its poor performance socially, environmentally, or financially, or one whose unfavorable reputation in the public might compromise your own reputation?*

I don't know that we do, but again I can tell you that there are companies now that are wonderful that didn't used to be as wonderful. There are companies now that are wonderful now perhaps because they have had a leadership change or whatever.

Q: *Applying one's business philosophy to customers could mean that either you are raising yourself up in the public eye by refusing to deal with the new customer until that business demonstrates its worthiness. Or maybe what you could do for them will improve their reputation and perhaps, change public opinion.*

Well, a lot of times when a customer needs something, what we are able to provide is going to make them a more efficiently-run place which can affect other outcomes. A utility company is a good example. What you are saying is reminding me of another project we have. It really does have something to do with what we have been talking about: the "World Community Grid." So grid computing is analogous to an electrical grid, where IBM doesn't have our own power generator. Instead, we buy from the city's grid. World Community Grid is where you or anyone else can put a little piece of software on your computer, and so that when it is running like mine is now and I am not operating it, I am actually crunching data that is going through this project that IBM supports and I am helping six or seven different researchers right now with data crunching without doing a thing. This is a project we have had for five years. It is on a low

protocol key, so it is not interrupting anything I am doing as soon as I start typing it is my computer. When this is idle time, we have almost 500,000 members signed up for this on more than 1.4 million computing devices around the world. We are real close in the next week or so to 300,000 years of computing run time. A lot of IT people know about this; this is not the first there has ever been, there are other ones, but this is one of the most public.

We have six active projects right now, but there are others that will come back. Here is one on muscular dystrophy and this is a childhood cancer one from the University of Japan. This is a project from the University of Washington and this is an AIDS project from the Scripps Institute. So this is all basic research; this is not creating medicines for tomorrow. It is doing data crunching and chemical reactions to look how to fight the antibodies.

Q: *Are your membership fees uniform or based upon usage?*

This is free, it's free. This is corporate responsibility.

Q: *It's good marketing too.*

Again, this is parlaying our technology into doing things that are good for the world, making the world run better. That is what we are trying to do. So I can sign up to participate in this and if I am a researcher; there is an application on here where I can apply to benefit from these things.

Q: *Do you have a system of vetting users before they become members?*

It's an internal system. We also have an advisory committee of outsiders – people from national labs or universities – and they convene by conference call. This is good science. It has to be in the public domain, so it is not proprietary. These people have to publish papers and have to do things that researchers do.

While you can join as an individual, we recommend that a team does this so that it is measured. Also you can have challenges with other organizations. For instance, New Jersey's Marist College is and small. It is close to Vassar, close to the Culinary Institute. Just to show you, Marist College is at 289 members; they got started pretty early and they have done all kinds of things. They have 2700 years of run time. They have a marketing class where they assign students who market this to other college students. This would be a great business class project.

Q: *With many business schools implementing SAP in its business classes, including Valparaiso University, I am just wondering how we can merge SAP with this World Community Grid. There has got to be a way.*

We would love to work with you all on this.

Q: *With respect to risk management, do you believe that IBM has adopted a transparent reporting system? It's just all a part of corporate responsibility.*

Sure. What you are pointing out to me is how fast this whole function is evolving and our folks have made speeches about it, but there are different ways to look at this function. It used to be that we would do something because it was an alternative to a regulation. Or, if we were made to do something, we decided we might as well do it right. We do things because we want to be leaders; we want to be ahead of regulations. There are so many examples of this, be it anti-discrimination...

Q: *Let's go back to the 1930s and the 40s. I referred to this before, but during World War II, a number of American-based companies continued to make profits in Europe. The way that Coca-Cola continued to make profits during World War II is that they made a new drink to sell, Fanta Orange. The same thing happened with GM when they produced the Opel. And in a computer-less world, the Third Reich needed some way to manage the flow and location of people. They needed to produce different codes for gas chambers, suicides, and shootings. I've read Edwin Black's book, IBM and the Holocaust, which tells the story of IBM's strategic alliance with Nazi Germany when Hitler first came to power, continuing well into World War II. Evidence is provided that IBM and its subsidiaries helped create these types of identification and cataloging programs. To the best of your knowledge, does IBM categorically deny this involvement? I am just wondering if IBM has ever simply admitted to this and declared that its actions were wrong, but that this is now a thing of its past and it now concentrates on making people its business.*

It's been awhile I don't remember what our public statements were on that.

Q: *I don't want to bring it up, but when you say IBM's corporate philosophy goes back to the twenties, I'm wondering what happened to it for the duration of the German occupation. I have done at least cursory research and cannot establish whether IBM has ever formally responded. There is evidence that none of the IBM punch card systems were ever sold to the Germans; instead, they were leased and serviced on site. Tylenol, on the other hand, did the right thing 22+ years ago when it removed all of its products from store shelves around the world within 48 hours of learning of several freakish, cyanide-laced gel cap deaths in both Seattle and Chicago. They took a multi-million dollar hit and paved the way for protective seals and packaging. But what's important is that they accepted the need for quick, immediate action.*

In contrast, Ford's now infamous internal cost-benefit analysis in the mid-1970s involved Ford's economists who presented their findings as to how much it would cost the company to recall its Pinto as opposed to continuing to settle personal injury and wrongful death claims due to Ford's placement of its fuel tank filler neck behind the rear bumper, resulting in deadly rear-end, fiery collisions. Ford decided to pursue the latter option, ignoring the safety concerns. This memo was ultimately revealed to the world. Many would say that Ford never recovered from this accusation of placing profits over people.

So it would appear that a genuine corporate policy of public citizenship would include admitting fallibility when appropriate and being completely transparent with the public. That would appear to produce good PR. The philosophy behind true corporate responsibility is to accept critique and to undergo continuous assessment to determine what could be done differently in the company to make it better.

There is no doubt that currently, you guys are at the top of your game. I am just curious about the past and any unresolved accountability.

Absolutely, our function has changed so much in the last few years. It is really interesting.

Q: *But being at the top of your game, I would not be doing my job if I didn't say you could be doing better. You are leading the world in so many aspects, but I am just wondering with more and more emphasis on transparency as an integral part of CSR if those things in the past are ever going to be addressed.*

I am going to research that.

Q: *Is IBM involved with education advocacy?*

We are very involved in education. We helped start an organization called the *Texas Business and Education Coalition*, and I could spend a whole half day talking about that. Our school districts are being run in *dual* language now as opposed to *bi* lingual. The kids learn both languages.

Q: *Has Texas voted on any propositions similar to Arizona?*

We don't have initiatives in referendum, thank goodness. So if a kid is even a non-legal immigrant, the state law says that we have to educate them, we are responsible to them. Because the border is a very permeable border and we understand that...

Q: *I thank you for your time and hospitality and look forward to reviewing your CSR in its totality. In the meantime, keep making the world a smarter planet!*



Oliver Winery and the Recipe for Values- Based Leadership: *People, Product and Place*

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Introduction: Doing Well by Doing Good

Nearly 275 years ago, Benjamin Franklin urged his countrymen to mold success upon the forge of virtuous conduct. “Do well,” he instructed, “by doing good.” Today, in the ubiquitous presence of what Tozi (2010) derides as freewheeling “short-termism,” a chorus of business leaders, stakeholders and critics are echoing Franklin’s call for sustainable, ethical business practices. This proposed “values-based revolution” (Brauer, 2009) advocates leading with authenticity, integrity and steadfastness in promoting principles within the workplace. Such an approach encourages employees to be trusting, empowered and motivated while attracting loyal customers who are engaged with the company and the values it brings to the market (Albion, 2008; Kouzes and Posner, 2007, pp. 221-272; Millick, 2009).

While empirical and anecdotal evidence (Brauer, 2009; Dean, 2008) and simple common sense indicate that people prefer to work for, patron and otherwise engage with values-based businesses, how to create and manage such organizations sustainably and profitably is less clear. In this paper, we share the story of a values-based company that has achieved extraordinary, resilient success; an achievement that is rooted in its leaders' ability to consistently integrate their personal values into daily operations. We examine the company's systems and practices in terms of its people-centered focus, and extract lessons that all business leaders will find helpful in pursuing their own values-based endeavors.

Oliver Winery

Oliver Winery is located close to Highway 37 in southern Indiana, seven miles north of Bloomington, the home of Indiana University's main campus. The state's oldest and largest winery, the company began public operations in 1972, though its roots may be traced to the previous decade, when founder Professor William Oliver began making small batches of



Bill Oliver



wine in his basement. Oliver's first successful commercial product was known as *Camelot Mead*, a wine made from the honey of local apiarists that quickly attracted a devoted local following.

Bill Oliver, Professor Oliver's son, assumed operating control of the winery in 1983. Together with his wife Kathleen, Bill has transformed the company from little more than

a hobbyist's operation into a state-of-the-art, nationally renowned winery that produces over

820,000 gallons (or 354,000 cases) of wine annually. The producer of the top two selling wines in both Indiana and Kentucky, the winery often captures other slots in those states' top five rankings each year. Oliver Winery's success has been featured in *Bon Appetite* (1995), the "Tastings" section of the *Wall Street Journal* (2001), *Indianapolis Monthly* magazine (2007), and *MidwestLiving.com* (2009). Additionally, it was the only non-Californian winery to be included in *Wine Business Monthly* magazine's "The Hottest Small Brands of 2004" (Oliver was ranked #4 out of 10).

Commercial success has accompanied critical acclaim. The winery's sales have increased by double digits annually over the last quarter century, and net profits have ranged between 13 and 18 percent for the past five years. National demand for the company's product is growing: Oliver

wines can now be purchased in fifteen states, and sales in Kentucky, Ohio, Michigan, and Illinois increased by 35 percent between 2008 and 2009. For the rest of the increasingly crowded U.S. wine market, average growth rates have dropped from 9 to 4 percent in the past two years and net profits have averaged less than 10 percent over the past eight years (McMillan, 2010).

What is even more impressive is that Oliver's success has been achieved while operating from within a state that historically has not been kind to hopeful wine makers – either legislatively or geographically. While political obstacles have in large part been overcome, the state's climate of cold winters and hot, humid summers still prevents all but the most ingenious and attentive growers from consistently harvesting superior yields. In light of these challenges and in comparison to broader industry performance, how have the Olivers led their values-based business to such success?

Reinforcing Values by Managing the “3 Ps”

Bill and Kathleen Oliver believe that an extraordinary business is composed of thousands of right choices by both leadership and staff about how to ethically engage its people, product, and place – the “3 Ps.” Kathleen Oliver explains the manifestation of this company value of “alignment” throughout the winery's operations:

People, product, and place: Each one is integral to our success – if one component fails, then we greatly reduce our positive impact on customers. When the customer gets to our facility, the grounds should look spectacular, setting the stage for what's to come inside the tasting room. Once inside, our service is what sets us apart from other retailers. We spend a great deal of time and money training our staff on ways to deliver the highest level of service possible. The actual tasting room and patio are designed to be aesthetically pleasing yet comfortable for any level of wine drinker. Our wine, with its beautiful packaging and delicious taste, resonates quality. Everything we do stems from having an eye for quality and dedication to that end. The result is loyal customers, strong sales growth, tremendous respect within the industry, and pride among everyone at the winery.” (Oliver, 2009).

The Olivers believe that the overall value of their company's offering is created through extraordinary attention to detail in the way that they engage their people, product, and place. The values-laden messages articulated by this engagement serve as constant signposts to staff and customers about what is important to the company, with the result that the Olivers' personal values are fully integrated into operations.

People

Hiring

The winery's roster of nearly 80 full-time, part-time and seasonal employees includes tasting-room staff, landscapers, and a production force, managed by a team of a dozen specialists in wine-making, business development, marketing, retail and wholesale sales, special events, public relations and human resources. Bill and Kathleen Oliver have learned that it is better to invest time and effort into finding the right people who naturally fit into the company's culture and values than to attempt to instill their values once staff members are hired. Accordingly, securing a job at the winery is more involved than at most service and sales-oriented businesses.

An applicant is required to submit a letter of interest and a résumé as well as complete a five-page application which seeks to determine personal strengths, weaknesses and ambitions. The application also is designed to probe the potential hire's understanding of service and retail best practices, mathematics and problem-solving strategies. Upon acceptance of the résumé and application, the applicant is subsequently interviewed by a hierarchy of managerial staff, ultimately culminating in a final interview with Kathleen Oliver. By implementing such a rigorous filtering process for selecting new team members, the Olivers are strengthening their company culture by welcoming only those who demonstrate aptitude for respecting the winery's values-based community.

Training

Once hired, new staff members are supplied with a packet of written materials detailing the company's historical development, unique wine-making techniques, and basic information about each varietal. After memorizing this information, new hires are trained to interact with



customers, both at the tasting bar and during winery tours, which every Oliver employee conducts on a routine basis. Regardless of job description, every new staff member learns about stocking, shipping, cleaning and bar-backing activities (assisting more senior employees at the tasting bar by replacing bar towels, labeling bottles, and replenishing crackers, water and glasses).

Within each component of the training program, minute attention to detail in delivering exceptional customer service is stressed. Such service includes not only greeting customers promptly and cheerfully as

they walk through the doors of the tasting room, but also paying attention to all opportunities to mitigate what authors Kim and Mauborgne (2005, p. 69) call “pain points” in the customer experience: those instances in which the company's offering is not delivered optimally. Trainees are carefully instructed in how to maintain the company's standard of “warm Midwestern hospitality” during busy summer weekends when the tasting bar, outdoor veranda and surrounding picnicking grounds are crowded and the phones are ringing constantly. The lessons include problem-solving and multi-tasking techniques within such a potentially overwhelming environment, as well as service methods designed to impress and delight customers. Most importantly, the training process emphasizes continual reinforcement that each staff member is fully authorized to



do whatever is necessary to ensure customer satisfaction and loyalty (including giving away bottles of wine or other products in instances of even slight customer distress).

In addition to the *people* segment of training, the *product* and *place* portions are similarly rigorous. New staff members are immediately indoctrinated into the Oliver aesthetic of spotless cleanliness, artistic beauty and fine craftsmanship. For example, if tasting-room wine glasses have faint dishwasher spots, re-wash them by hand, trainees are taught. If a bottle's label is even slightly off-center, put it aside and open a new one for customer tastings. Place all bottles in storage bins with the labels facing up and centered. Rotate stock continuously so the perfectly aged bottles are sold first. Arrange cheeses, breads and chocolates artfully in the retail spaces. Wrap customer purchases neatly and offer to help carry large orders to waiting vehicles. Pick up refuse in the parking lot and on the grounds, and be sure to pull weeds from the flower beds. While the tasks are numerous, the overriding theme reinforced throughout the training program is simple: maintaining the aesthetic details is just as critical to successful job performance as completing functional, position-specific tasks.

The culminating event of training for new hires – their “graduation” – involves a “soft opening.” This is a staged event during which the Olivers invite loyal customers to visit the tasting room during hours when the winery is usually closed to the public. At this time, all of the knowledge and skills that new staff members have acquired are demonstrated and critiqued in a simulated, yet realistic, environment. An understanding of varietal descriptions, food pairings, historical dates, Oliver story themes and methods of superior customer service must all be evidenced before employees are added to the ranks of those scheduled to staff the tasting bar during regular business hours. With the completion of training, new hires have a clear understanding of company standards regarding expected job performance and are equipped to demonstrate those values to the visiting public.

Optimizing

To support ongoing staff development, the Oliver management team devotes significant time to working alongside new and tenured employees in the front lines of daily operations. These company leaders often slip behind the tasting bar and help pour tasting samples, interact with customers, stock glasses, accompany guided tours, assist with processing and packing and help with grape picking during harvest time. In this way, the winery's leaders provide mentoring and coaching while creating an ongoing stream of development opportunities for staff members.

To further bolster the ability of their staff to provide superior wine-tasting experiences, the Olivers have established a tradition of knowledge-sharing within the company. Across the rest of the U.S. wine industry, the general practice is to separate the makers and sellers of wine. That is, the production staff rarely interacts with the retail sales team. Oliver Winery's vintners, however, recognize the many advantages of highly knowledgeable customer service representatives. The pursuit of frontline expertise has resulted in routine staff-only wine tastings conducted after business hours. During each of these informational sessions, retail, production and leadership employees gather together at the tasting bar to sample both the company's wines and those of its competitors.

During these events, Oliver's vintners explain the processes involved in crafting each wine, and staff members are encouraged to identify the flavors they taste and to share descriptions that can be used to educate their customers. Imaginative wine and food pairings are debated as well

as more specific ideas including which occasion or season could best complement each wine. Through these meetings, employees become more skilled at articulating both varietal-specific characteristics, as well as differentiating elements of Oliver Winery's products. The end result is a highly educated staff, equipped with a much higher "wine IQ" and a greater ability to provide meaningful winery experiences for the business's customers.

Throughout the optimization process, the Olivers create an environment wherein employees are expected to engage in the process of continual improvement. Staff members from all levels of the organization join together in an iterative process of developing, testing and evaluating new ideas that enhance their customers' winery experiences. The result is a deep pool of talent from which to draw for open leadership positions. It is not surprising, therefore, that the majority of Oliver Winery's leadership team members have been promoted from within after starting in entry-level positions.

The Role of Storytelling in Sharing Culture

The Olivers further align the experiences of both employees and customers with their personal values by infusing several company legends into daily operations. These stories center around three distinct themes: (1) the roots of the company's historical success; (2) the mystery of the winery's Creekbend Vineyard; and (3) the Olivers' vision for the future of their company. Every day,



Professor William Oliver



employees relate these tales of improbable success, craftsmanship and optimism to each customer at the wine-tasting bar and during guided tours.

Every half-hour each Friday, Saturday, and Sunday, visitors are able to take part in a tour of Oliver Winery's production facilities. The tours begin by entering the legendary cellar that was constructed by Professor William Oliver and his law school students nearly four decades earlier. After discussions about the winery's origins, the tour groups walk through the more modern production facilities, pausing at points of particular interest in order for the guide to offer historical framing, explanation of current operations and plans for future initiatives.

Story Theme #1: Stories of the Roots of Historical Success

In 1973, Professor Oliver began creating Camelot Mead, the honey-based wine by which Oliver Winery earned its initial recognition. More than just a wine, Oliver's Camelot Mead represented the company's commitment to quality over convention – the convention being that wine was traditionally crafted from grapes. At the time, Indiana vintners had not yet learned how to coax consistently superior grapes from a sub-optimal climate, and rather than produce marginal grape wine vintages, Professor Oliver chose to focus on a wine product with a more consistent quality.

Traditionally consumed by the masses, Camelot Mead is highly accessible to a broad array of wine appreciators. Additionally, the product holds nostalgic value among long-time Oliver wine consumers, who have supported the company since its founding and are able to remember how this wine was first crafted in the basement of Professor Oliver's home. Historically, mead was served to celebrate the joys of living, and the strong resonance with this tradition has lent significant marketing value to the product.

Arguably the most notorious aspect of Professor Oliver's career as a vintner was his effect on Indiana's winery laws. As an Indiana University law school professor, Oliver maintained a unique connection with his students, many of whom worked in his vineyard on the days of his course lectures. While their professor lectured course material, students pruned vines, harvested grapes and constructed the winery's first public tasting room. Some of these students became state legislators and when Professor Oliver submitted the Indiana Small Winery bill (now Act), they undoubtedly helped with its enactment. The Indiana Small Winery Act enabled Indiana wineries to produce yearly quantities of up to 100,000 gallons, pursue the retail and wholesale distribution of product and sell wine on Sundays in public tasting rooms. With the passage of this legislation, vineyards became the only exception to the Indiana law prohibiting the sale of alcohol on Sunday; a unique situation that currently is upheld in many counties which still prohibit other vendors of alcohol from selling their products on that day.



Story Theme #2: Stories of the Mystery of Creekbend Vineyard

Oliver's Creekbend Vineyard was launched in 1994 by planting three acres of grapes that do not normally grow well in Indiana – Cabernet Sauvignon, Cabernet Franc, Merlot, and a hybrid called Chardonel. Creekbend has proven so successful that it now encompasses 37 acres and more varieties of grapes are regularly added. The vineyard is geographically distant from the public tasting-room, and while the tasting room, production facilities, surrounding grounds, and verandas are all open to visitors on a daily basis, Creekbend is held in constant tension with that accessibility due to its relative exclusivity.

Due to the experimental nature of the vineyard, and the fact that the results of efforts there are dependent on the unique and changeable climate of Indiana, every season's production is unique. A 2006 Creekbend Cabernet Sauvignon, for example, tastes very different from a 2007

vintage. Because of these challenges, the legend of Creekbend grows more potent with each successful harvest. Of particular note is the production team's achievement in growing grapes used for award-winning ice wine. These grapes are picked after the season's first hard freeze which acts to concentrate the juices, producing an exceptionally sweet dessert varietal. Capitalizing on the Indiana growing season – which is long enough to fully ripen the grapes, but cold enough to freeze them before they rot on the vine – Oliver produced exceptional ice wine that was awarded “Best of Show” at the 2005 Mid-American Wine Competition.

Story Theme #3: Story of the Vision for the Future



Since the early 1990s, Oliver Winery's annual production of wines has increased from 38,000 to over 820,000 gallons. The recent installation of a new production facility added twelve state-of-the-art, stainless steel tanks with automatic temperature controls. These tanks contain features which closely monitor the fermentation process in order to optimize the quality and taste of the wine. A new bottling line capable of filling, corking, and labeling 8,000 bottles per hour was also added. The new line demonstrates great flexibility in terms of bottle shapes, sizes,

and labels. As a result of these improvements, Oliver has gained the ability to triple its current annual production with only relatively modest additional capital outlay. This will enable the company to efficiently provide sufficient product for growing wholesale markets in the future.

Product

The breadth of Oliver Winery's product line differentiates it from the majority of its peers. While most vineyards typically offer only two or three varietals, Bill Oliver has established a portfolio that boasts a selection of 33 different wines: 11 dry, 10 semi-dry, 9 semi-sweet, and 3 dessert. Of these, 10 are created from grapes grown at Oliver's Creekbend vineyard, while the other 23 are crafted from externally sourced grapes or grape juice (called *sepágé*). While supporting production from the winery's own Creekbend Vineyard allows the company to cultivate its



authenticity as a southern Indiana vineyard, the decision to nationally source a large quantity of grapes acts to ensure materièl of consistently high quality and sufficient supply.

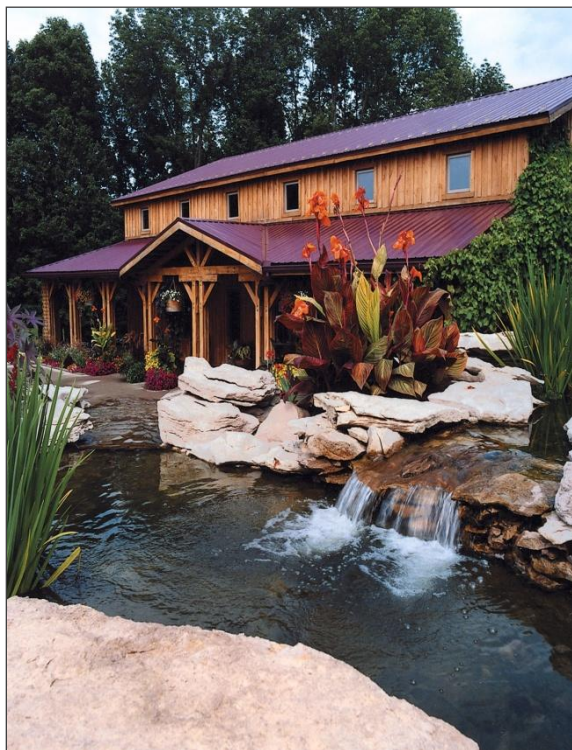
Bill Oliver describes the artistry involved in wine-making as similar to cooking a fine meal. A good chef starts with premium ingredients, either purchased from trusted vendors or produced in one's own garden. Wine-making for Bill

Oliver is much the same (Jaqua, 2008). Whether internally or externally sourced, the grapes for Oliver wine undergo a production process that is aligned with the vintner's commitment to "make approachable and satisfying wines that emphasize the varietal character of high quality fruit" (www.oliverwinery.com/winemaking). In other words, as Bill Oliver explains, **"Let the grape speak!"** (Jaqua, 2008). This respect for the nature of each varietal results in providing customers with wine-tasting experiences based upon clean and uncomplicated homage to the grape varietal.

By eschewing industry tradition and offering a broad range of drinkable wines, Oliver Winery has widened its customer base considerably. Visitors with wildly differing tastes can easily access the wine list by choosing from a selection of wines within each of several different categories. This inclusive portfolio has allowed the company to convert many non-wine drinkers into a thriving population of Oliver wine appreciators. Significantly, the didactic nature of the company's offering (i.e., the instruction given at the wine-tasting bar and during tours of the production facilities) enables the company to tap the large population of Indiana University students and their parents as customers. As each university class reaches legal drinking age, Oliver tasting room employees (many of whom are IU students themselves) stand ready to help them discover the world of wines. With 33 different possibilities, nearly everyone can find at least one varietal that is pleasing.

Visiting the winery also proves to be an excellent outing for parents as they travel to Bloomington to visit their students. In addition to wine, visitors are able to select from a complimentary assortment of fine foods, art and accessories that are arranged within both a small retail corner and subtle displays throughout the tasting room. Each item within the retail spaces is closely aligned with the company's value of providing a finely crafted, warmly hospital and fully

accessible winery experience. Even those who don't drink alcoholic beverages are able to find refreshment in juices, natural sodas and myriad food items available for sale. There is something for every visitor to enjoy, and the results of this inclusiveness are clearly visible during busy summer weekends, as large groups of college students, business colleagues, local residents and families with small children all seamlessly mingle both within the tasting room and throughout the outdoor verandas and picnic areas. By providing a welcoming, non-elitist approach to wine appreciation, the Olivers not only add substantive value to their customers' experiences, but they also enjoy augmented revenues from a relatively broad customer base.



Place

The value that Bill and Kathleen Oliver place on visual aesthetics is apparent throughout the tasting room, production facilities and surrounding twenty-acre grounds, which have become a destination for

visitors from around the region. The winery's landscaping is defined by massive geometric limestone slabs that anchor manicured flowerbeds. A broad expanse of meticulously groomed lawn slopes down behind the tasting room, punctuated by hand-hewn benches and picnic tables. Lily pads and ornamental grasses frame a large koi pond, offering an appealing location for picnicking visitors. Along the pathway leading to the winery's main entrance is a limestone waterfall that serenades visitors past the large patio and deck areas, through wide front doors and into the tasting room.

Thick beams of solid oak reminiscent of backcountry lodges crisscross the tasting room's 30-foot vaulted ceiling. An iron grapevine sculpture "grows" from the floor in the center of the granite bar and sends its vines to twist along the beams above. The work of local artists is ubiquitous and can even be found on the wine bottle labels themselves. William Zimmerman, who created the bar's grapevine sculpture, has created a series of labels that feature highly detailed paintings of birds and flowers. These labels earned the winery the "Clear Choice Award" from the Glass Packaging Institute in 2005, as well as first place in offset printing from the "Tag and Label Manufacturers Institute" (for the Pinot Grigio Blue Heron label).

Every detail in the tasting room and throughout the production areas is attended to with meticulous care and craftsmanship, from the custom-made hanging varietal signs to the spotless floor of the grape fermenting room. Visitors to the winery are surrounded by an environment that rivals the aesthetic beauty of the globally-recognized wine regions of France, Spain and the western United States. Every surface and corner of the tasting room is composed of slate, hardwood, ceramic tile, thick glass, or wrought iron. Every pallet and box of matériel is stacked neatly and labeled professionally throughout the production areas. Each flower bed is artistically designed and meticulously attended. The Olivers and their staff have not missed a single opportunity to communicate their shared value of delivering an optimal wine-tasting environment for their customers.

In addition to paying careful attention to the company's internal environment, the Olivers express their commitment to philanthropically engaging their community with their innate understanding that "It's just the right thing to do" (Oliver, 2009). They have focused their giving entirely on their own community of Bloomington. The variety of organizations to which they donate is quite substantial, including local arts organizations, parks and recreation, the chamber of commerce, band boosters, firefighters and Rotary Clubs. Additionally, Oliver Winery is the main sponsor of Indiana University's Auditorium, where the winery's product is served during special university events for which the company donates not only the wine and food, but also staff services. Due to the latter part of the gift, Oliver is delivering a complete wine appreciation experience, rather than a simple product donation.

Results

When Bill Oliver first assumed control of



winery operations in 1983, 80 percent of all revenue came from retail tasting-room sales, while the remainder originated through wholesale channels. During the past three decades, this ratio has reversed. Since its founding, the company's wholesale success has been built upon the ability of the tasting room to generate demand through wholesale channels.

The exceptional wine experience that visitors have at Oliver creates loyal fans who, upon returning home, supplicate their own grocers, restaurateurs and wine shop owners to begin carrying Oliver wines. Additionally, these customer "promoters" (see e.g., Reichheld, 2006, p. 30) extol the winery's products, beautiful environment, and extraordinary hospitality to their friends and families. A special subset of these "ambassadors" is created by the winery's employment of and engagement with Indiana University students and parents. Upon graduation, these customers spread out across the country, carrying with them their loyalty to IU and Bloomington, as well as to Oliver Winery and its products.

In 2002, Bill and Kathleen hired a wholesale sales manager in order to satisfy requests for their wine from out-of-state wholesale distributors. That same year witnessed the winery's entrance into the Kentucky and Ohio markets, and in the following years the company ventured into Michigan, Illinois, and non-contiguous states, including Florida and Kansas. As mentioned above, sales are growing robustly, illustrating the effectiveness of the Olivers' values-based business model.

Lessons Learned

For the leader striving to create a values-based business, how can he or she ensure that an organization is truly constructed upon core values, rather than simply lacquered with a patina of values-based jargon, hollow mission statements or fleeting, fad-based initiatives? We believe the Oliver Winery story provides valuable lessons that can help in this journey.



#1. The *Right* Values have Power

Not all values are created equal. While research certainly demonstrates the power of a strong culture of shared values (Brauer, 2009; Cameron, 2008; Kouzes and Posner, 2007), to say that alignment with any set of common beliefs creates sustainable success would be folly. Consider the recent housing and mortgage fiasco that led to the global financial crisis. Many homebuyers, lenders, Wall Street investment bankers and brokers all shared the "value" of short-term profit maximization. This value has proven to be unsustainable and reckless, as well as arguably criminal.

Compare this situation with that of the Olivers, whose business has been built upon a very different set of shared values: those of inclusion, authenticity, deep respect for staff and customers, uncompromising quality, constancy of purpose and long-term focus. These values have provided a foundation upon which three decades of consistent growth in revenues, profits

and loyal customers has been realized. The values' power lies in the fact that they are not simply rhetoric; they are deeply internalized by all staff and act as a guide for every decision and action.

#2. Deep Belief and Understanding

A successful business is composed of thousands of right decisions. Moreover, the type of *sustainable* success experienced by Oliver Winery is made possible by staff members who are passionate about what they do and consequently make choices commensurate with the company's values. This energy-intensive process is not predicated upon mere rhetoric or imagery, but is sourced instead in the more fundamental emotional and intellectual drivers of *belief* and *understanding*. If leaders and staff are to consistently address situations that do not reflect company values, they must first have deep belief in and understanding of shared organizational standards, which provide guidance in the decision-making process. Such internalization of company values effectively prevents short-sighted actions based on superficial financial analysis, "conventional" wisdom, or the shortest route to task completion.

#3. Values and Gestalt

Recall Kathleen Oliver's observation: "People, product and place: Each one is integral to our success – if one component fails, then we greatly reduce our positive impact on the customers." This statement reflects the importance the Olivers place on infusing their values into the gestalt, or the inseparable whole, of the company. Let us examine the lessons provided by this commitment to creating organizational alignment:

a) Hire Values, Teach Skills: In *Good to Great* (2001), Jim Collins asserts that "People are not your most important asset. The *right* people are" (p. 51). "The right people," Collins states, "don't need to be tightly managed or fired up; they will be self-motivated by the inner drive to produce the best results and to be part of creating something great" (p. 42). For the Olivers, the right people are those that already hold the same values as the company. Care is taken in the hiring process to assure a "good fit" by placing heavier emphasis on values and character than skill sets or experience. The Olivers find it easier to hire values and teach skills, than to hire the skills and try to change an employee's values. As Katherine Dean argues, "By inviting only those with similar values into the organization, leaders create opportunities for employees to feel deep connections with and respect for the company: links which create the foundation for good decision-making" (Dean, 2008).

b) Develop According to Values: Research demonstrates that committing higher than average resources to training systems yields a greater return on investment per employee, better customer service and deeper employee commitment to the company's values and vision (see Kouzes and Posner, 2007, p. 91, 171, 261). For Bill and Kathleen Oliver, two of their most effective training mechanisms have been the "soft opening" events and the infusion of values-based company legends into daily operations. The former of these tools enable new staff members to gain confidence in performing at the level expected by management while concomitantly preventing underachieving employees from interacting with customers until they have proven competency. The latter of the tools (storytelling) serves to continuously relate company values to the staff under the guise of educating customers about the product line. By instilling nearly every conversation between employee and customer with some segment of the Oliver story, the company's traditions of excellence, continual improvement and optimism for future success become ubiquitous, and deeply

influential to employee decision-making processes long after training is complete (see e.g. Cameron, 2008).

c) Promote from Within: Bill and Kathleen Oliver have created organizational leaders by “enabling them to see clearly, and to achieve effectively, that which they hold dear” (O’Toole, 2008). Due to rigorous training, the Olivers can be confident of the alignment of what they and their employees hold most dear: achieving the extraordinary. Furthermore, by creating such an integrated management of people, product, and place, the Olivers can rest assured that they are making it very uncomfortable for those who don’t share their values to remain working at the winery. There is simply no dark corner within such a tightly woven environment for low-achievers to hide (Collins, 2001, p. 51; Kouzes and Posner, 2007, p. 56).

Those who remain with the organization become more deeply aligned with and supportive of company initiatives, which resonate with their own values about how to achieve excellence. The winery’s leadership follows the ideology that “the growth of any organization is simply the accumulated growth of the individual relationships that constitute it” (Reichheld, 2006, p. 188). Such committed relationships are rewarded with invitations to advance within the company. As mentioned previously, the majority of the Olivers’ leadership team has been promoted from within the organization. While some business leaders may question this practice, the empirical evidence overwhelmingly endorses it. Returning to Jim Collins’s *Good to Great*, we learn that bringing in a “high-profile outside change agent is negatively correlated with a sustained transformation from [a] good to great [organization]” (p. 31). In a values-based company, promoting from within is not only an acceptable practice, but an advantageous one. Candidates have already been vetted, tested, and strengthened and have proven their character, aptitude, and commitment to the company’s principles.

d) Align the Environment with the Values: The Olivers have invested considerable resources in crafting their company’s physical environment. They understand that the retail spaces, production facilities and extensive landscaping send powerful messages about the company’s values, which in turn affect morale, performance and loyalty (Cameron, 2003). “Just like verbal symbols,” authors Michael G. Pratt and Anat Rafaeli (2001) instruct, “multiple physical symbols can be put together to clarify, bolster or qualify a point.” In the case of Oliver Winery, the ubiquitous symbols of fine craftsmanship and generous investment in aesthetic beauty are communicating (and then emphasizing) the value the company’s leaders place on experiential stewardship. The Olivers’ visible dedication to enhancing the working environment encourages staff to mimic, and customers to enjoy, these efforts.

#4. The Product is More Than Just the Product

Bill and Kathleen Oliver are not just selling wine – they are providing a complete customer experience that is infused with the company values of excellence, hospitality and attention to detail. In his text *Clued In: How to Keep Customers Coming Back Again and Again* (2004), author Lewis P. Carbone extols such “purveyors of experience” (p. 25). “In the aftermath of a transaction,” Carbone relates, “the way people remember and value an experience emotionally will have everything to do with their ultimate commitment to an organization or brand” (p. 65). Customers are loyal to Oliver Winery not just because they enjoy its wine, but because they attach a premium to the values that are so clearly demonstrated by the company’s extraordinary focus on the customer experience.

#5. Values Transcend Organizational Boundaries

The Olivers intimately manifest author Brauer's (2009) general observation that "being a part of – as opposed to simply being geographically located in – a community is necessary to properly link social values with the company's products and services." Through a values-based experiential offering and highly visible philanthropic efforts, the Olivers create deeply relational (as opposed to purely transactional) engagements with their customers. These sustained relationships blur the boundaries between customer and company and company and community, with the effect that the customers themselves transform into an effective sales tool for the winery's product. This reciprocal situation is both functional and satisfying; just as the company needs the support of the local population to flourish, the local community benefits from having the winery as an essential part of the community.

Final Thought

One of the most interesting aspects about Bill and Kathleen's approach to building a values-based business is that they have done so *without* a written mission statement. This seems to run counter to convention, which holds that a business should start with a clear statement of purpose. Unfortunately, the value of such public proclamations is compromised every time organizational actions are taken that are inconsistent with it. What the Olivers show us is that more attention should be paid to what a company's decision-makers *do*, rather than what they *say they are doing*. Their values are imbedded in every decision and in every action – every day. After all, as Ben Franklin has assured us, not only is it imperative to "do well by doing good," it's also true that "well done is better than well said."

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Author Biographies

A research team of three dynamic intellects partnered with Southern Indiana-based Oliver Winery to develop a model for leading values-based businesses to thrive and endure within an increasingly globalized and competitive marketplace. Team leader Allyson Baughman (B.A. in Folklore, Indiana University Bloomington; M.B.A., Valparaiso University) addressed how organizational values are delineated and transmitted among members, with special emphasis on the role of storytelling in the didactic process. Alexandra Schroeder (B.F.A., Bradley University; M.A., Indiana University Bloomington) explored how shared beliefs are communicated and emphasized through environmental aesthetics, with a keen eye towards how artistic beauty enhances organizational performance. Valparaiso University Herbert and Agnes Schulz Professor of Management Dean Schroeder (Ph.D., University of Minnesota) brought his considerable experience and expertise to bear on analyzing the values-infused processes, systems and structures that form the foundation of extraordinary, sustainable performance.

Together, this unexpected team of folklorist, artist, and organizational strategist detailed the mechanics of building and sustaining high-performing, values-based organizations. The lessons learned are at once revolutionary and timeless, simple yet comprehensive. It is the hope of the researchers that the fruits of their cross-disciplinary collaboration may empower all who dare to imagine and build within the new paradigm of the 21st century: Values-Based Leadership.



Holistic Leadership: A Model for Leader-Member Engagement and Development

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Introduction

This paper presents a model of holistic leadership that is proposed for inclusion with the integrative class leadership theories. It positions holistic leadership as a synthesis of full participation models and developmentally-oriented leadership theories by building upon theories of holistic development. To support its thesis, it begins with an overview of the evolution of leadership theory. Holistic leadership is then defined with its distinguishing elements placed within the context of contemporary leadership literature. The paper concludes with a statement of the theory's fundamental assumptions, its implications for leadership development, and its potential as a supporting framework for future research.

To lead is to inspire others to realize their best potential. While many other definitions of leadership exist, leadership practitioners who meet this standard are likely to be successful more often than not. This paper offers an emergent theory of leadership built upon the class of theories most closely aligned with this goal. It then integrates them with theories of holistic development that offer insight into the most effective ways to access the best potential of enterprise members.

Leadership Paradigms

As Lussier and Achua (2007) note, leadership has evolved over the past sixty years to produce

four major paradigms: trait, behavioral, contingency, and integrative. In some respects, each paradigm shift emerged as an evolutionary consequence of both the strengths and the limitations of the paradigm that preceded it – each in its own way offering a perspective on how to inspire that best potential in the individuals and groups being led.

Of these paradigms, the integrative class which includes transformational, servant, and authentic leadership theories, builds upon behavioral, trait, and contingency theories by extending the leader's impact beyond task fulfillment to the process of leadership itself. The expectation is that by attending to the motivational needs of followers, better outcomes are likely to ensue. However, despite the soundness of this premise, translating these theories into practices that deliver consistently superior results remains a challenge for most practitioners. This paper associates the cause with three perceived limitations of the current crop of integrative theories:

1. They do not extend themselves far enough into the realm of follower motivation;
2. Many continue to rest the locus of causality in leadership processes with the leader; and
3. Most do not fully explore the systems implications of the leader, led, and context triad.

Therefore, an opportunity exists for a leadership theory that addresses these shortcomings.

Holistic leadership proffers seven fundamental assumptions about the nature of effective leadership:

1. Successful outcomes result from an orientation toward development.
2. The healthiest and most productive development is done collaboratively.
3. The leadership unit shapes the context of collaboration.
4. The core leadership unit is the individual, which makes every participant a leader within his or her own sphere of influence.
5. The intrinsic desire for meaningful purpose suggests that every individual wants to realize his or her best potential.
6. Holistically-led collaboration requires that the participant's right to self-determination be respected.
7. The exercise of self-determination in a way that realizes the individual's best potential, results from an iterative process that must be supported.

This paper presents holistic leadership as that next step in the theoretical progression of the integrative paradigm. It does so by drawing upon holistic development theory and its implications for elevating the role of self-determination and collaborative development to a position that is inextricable from successful leadership practice. This contention will be supported first by an overview of the evolution of leadership theory with an emphasis on the connecting strands that link other classes of leadership theory with integrative theories of leadership. From there, a theory of holistic leadership will be presented in sufficient detail to distinguish it from existing theories and articulate its potential as a model for leader, leadership, and organizational development.

Evolution of Leadership Theory: Then to Now

The historical view of leadership known as the *Great Man Theory* reflected two notions: (1) there were inherent, instinctual and perhaps even bio-genetic factors that preselected some for leadership; and (2) that the circumstances that elicited leadership behavior also acted as

catalysts propelling those best suited to evolve into leadership positions (Bass & Bass, 2008). In this way, *great man* theories anticipated both the trait and contingency theories that were to follow. The search for qualities most commonly found in great leaders led to an interest in leadership traits and behaviors that could be measured. It was only upon the inability to find an empirically validated list of traits dispositive of leadership proficiency that other explanations were explored. However, the shift from *great man* to (and subsequently away from) trait and behavioral theories did not nullify their contributions to what we know to be true about leadership.

Sixty years of leadership research has established that the personality of the leader cannot be wholly excised from the leadership discourse or the outcomes that leadership produces. Instead, trait and behavioral theories served as a pivot point for contingency-based theories that place leadership in the context of leader, follower, and *situation* (Lussier & Achua, 2007). Indeed, situational leadership theories emerged out of the recognition that their trait and behavioral predecessors failed to address the context variable. As such, situational theories were instrumental in explaining why the presence of specific traits and behaviors in a leader could not consistently predict leadership results. However, there are an infinite number of situations with which a leader may be confronted.

They can be internal or external to the organization; relate to economic, production, or personnel issues; and require chronic, acute, or crisis-level intervention. Further, these situations rarely emerge in isolation. This results in leadership practices that must be evaluated through ever more byzantine constellations of context. What emerged from this dilemma was a shift in perspective from “leadership as performance” to “leadership as interaction” – the thread that not only links but leads from trait, behavioral, and contingency theories to the integrative paradigm.

The Personal Touch

Contingency leadership theory expressly linked personality traits and behaviors to situational context as a mechanism for explaining and then predicting which leadership styles would work best in different situations (Lussier & Achua, 2007). As other situation-indexed leadership theories were developed, the leader’s ability to motivate staff toward higher levels of performance emerged as a central theme. Whether by accident or design, these new areas of inquiry had the effect of elevating the needs and desires of the employee and making them a functional element of leadership. From there, it took only a small leap for leadership theory to integrate these concepts into models that emphasized the personality traits and behaviors that motivated and inspired staff.

Transformational, Authentic, and Servant Leader Models

Once the connection between leadership effectiveness and employee motivation was established, leadership research migrated toward isolating the personality traits present in inspiring leaders as well as the behaviors that led to staff motivation. The nexus between charismatic leaders and transformational leadership was a natural outcome of this line of investigation. Charismatic leaders are defined by high levels of energy and enthusiasm as well as strong ideals and superior communication skills that engender loyalty, devotion, and commitment from followers (Nahavandi, 2009). This kind of leader-follower interaction when

positively directed supports the norms that leadership scholars associate with transformational leadership.

It is generally accepted that transformational leadership is defined by four criteria: idealized influence, inspirational motivation, intellectual stimulation, and individual consideration (Bass & Bass, 2008; Chemers, 2000; Judge & Bono, 2000; Lussier & Achua, 2007; Nahavandi, 2009; Piccolo & Colquitt, 2006). These elements synthesize the findings of expectancy, leader-member exchange, and other transactional theories with increasingly popular schemas hinging on the nature and quality of leader/led interactions. Specifically, a growing emphasis on the importance of emotional intelligence (Goleman, Boyatzis, & McKee, 2002) and leading with heart (Kouzes & Posner, 2002) when added to the imperative of involving employees in the conditions of their work, were crystallized in the transformational leadership profile.

Servant and authentic leadership theories take this profile and add a values orientation. Servant leadership is premised on the equality of all participants in an employment relationship. While hierarchical structures may formally exist, the servant-leader model eschews dominating or controlling tactics of supervision in favor of employee empowerment (Daft, 2008). Lessons learned from the contingency paradigm of leadership theories make clear that certain contexts are less amenable to a servant leadership model than others. Nonetheless, servant leadership and its companion theory of stewardship heavily favor a participatory style of leadership that has proven successful under the right conditions (Walumbwa, Hartnell & Oke, 2010).

Finally, authentic leadership emphasizes the values system of the leader and its role in leading from a base of self-awareness, integrity, compassion, interconnectedness, and self-discipline (Nahavandi, 2009). Clawson (2009) advances a similar concept that he calls *Level Three* leadership. The third level in Clawson's model refers to the role that values, assumptions, beliefs, and expectations (VABE) play in the behavior of the leader and the led. Taken together, the progression of leadership theories over the last half-century can be viewed as a cascade and an evolution with each set of theories being enlarged by the theories that followed it. However, despite the compelling perspectives offered by the current iteration of leadership theories, a gap remains.

The prevailing views of leadership present it in dialectical terms (Popper, 2004). The leader's relationship to the led, the team to the organization, the goal relative to the context – leadership interactions are reflexively treated as a series of causes and effects. However, in reality these interactions are typically nonlinear. This helps to explain why achieving the most desirable leadership outcomes remains unpredictable despite the compelling theses offered by situational and integrative leadership theories. Every individual, entity, or event that is impacted by a leadership process produces its own effects through the idiosyncratic responses being generated. Accordingly, however else leadership is defined, it must also be regarded as a “complex, dynamic and adaptive process . . . integrated” across a “broad range of elements” (Magnusson, 2001, p. 154). By doing so, it is also recast as a holistic process which provides the starting point for the leadership theory presented here.

Holistic Leadership Theory

Popper (2004) asserts that leadership is a relationship that extends beyond the properties of leaders and followers, because “the conceptualization of leadership as relationship permits an

integrative view of leaders, followers, and circumstances, and thus reduces the bias . . . of giving too much weight to the leader” (p. 118). According to Popper, influence is a central feature of leadership and it arises from the emotive force that emanates from leadership relationships. It is this emotive force that creates the leadership mandate of charismatic leaders which has evolved into its operationalized and most researched form – transformational leadership.

In describing the three forms of relationship that leadership can produce, Popper (2004) noted that *developmental* relationships are characterized by the ability to create an environment of psychological safety that allows participants to engage in developmentally oriented behaviors including those most closely associated with transformational leadership – individualized consideration, autonomy reinforcement, and the promotion of trust, self-confidence, self-esteem and achievement orientation.

However, even this interpretation remains constrained by the very limitation that it exposes: that is, positioning the leader as the locus of causality in the leadership relationship. Popper (2004) hints at the solution by referring to the routinization of charisma, noting that this process breaks the bond between follower and a specific leader and converts it into a property of the institution or organization. Thus, the glaring conundrum in the leadership literature lies in how to successfully instigate this routinization process. Holistic leadership theory suggests that the answer lies in defining the unit of analysis not as the leader, the follower, the circumstance, or the relationship, but rather as a holistic system of development.

Holistic Development

Wapner and Demick (2003) maintain that holistic development is inherently systems-oriented and identify the “person-in-environment” as the system state. This interface is contextualized according to three dimensions that relate to both person and environment: the bio-physical, the psychosocial, and the sociocultural. A holistic system’s features are interactionistic, involve a process of adaptation, reflect change as a feature of transformation, and require synchronization and coordination of its operating elements (Magnusson, 2001). From this perspective, leader, follower, and circumstance are not jockeying for a position of control but are instead discrete components of a series of interconnected systems that continuously “adapt, transform, coordinate and synchronize” with each other throughout the leadership process.

Lips-Wiersma and Morris (2009) add to this construct by emphasizing the role of meaningful work in framing the holistic development process, stating that “a sense of coherence and wholeness is particularly important in experiencing meaningfulness” (p.502). Based on research into the elements of meaningful work, they produced a model of holistic development comprised of four quadrants – ***developing and becoming self, unity with others, expressing full potential*** and ***serving others*** – that, it can be argued, orient the person-in-environment system state. Popper (2004) also addresses the role of meaning in *symbolic* leadership relationships by highlighting the impact that leaders have on followers’ self-concept and motivation for self-expression. Leaders in positions of formal authority have the opportunity to project values that followers can internalize as prized components of their self-concept and sources of motivation through linkages to an idealized vision articulated by the leader.

Lips-Wiersma and Morris's (2009) theory of holistic development asserts that leadership does not, and in fact cannot, manufacture or manage meaning for others. It is instead challenged to find ways to promote the integration of self-defined meaningful purposes that emerge organically from the individual and are subsequently aligned with the broader goals and objectives of the organization. This view is embodied in the definition offered by Rogers, Mentkowski, and Hart (2006) in which holistic development is described as "a further integration of the meaning making self" (p.500).

Leaders in positions of formal authority have the opportunity to project values that followers can internalize as prized components of their self concept and sources of motivation through linkages to an idealized vision articulated by the leader.

In their investigation of the relationship between holistic development and performance, Rogers, Mentowski, and Hart (2006) conducted a meta-analytic review of research studies in support of their metatheory that "person in context" and intentional focus of meaning converge to create a framework for holistic development and performance. Their metatheory forms a matrix in which the structures of the person and external contextual frames such as the working environment intersect a plane of internal versus external foci of meaning. This matrix yields four domains of growth – **reasoning, performance, self-reflection, and development**. Several concepts emerged from their analysis that would be germane to an emerging theory of holistic leadership. When combined, these theories coalesce as a leadership imperative highlighting the need for:

1. An assemblage of self-directed participants.
2. Environments that promote the development of meta-cognitive skills like reflective thinking and pattern recognition to support the active use of mental models that will sustain constructive, autonomous decision-making.
3. Leaders that engage participants in ways that demonstrate respect for the autonomy and individual capacities of their members.
4. A collective approach to the development of member capacities in a way that seeds meaningfulness into the work environment.

These perspectives on holistic development map to elements of the leadership theories that have retained their salience and applicability over time. They include the relationship between leader personality traits and leadership performance; personal and organizational values and leadership behavior; leader influence and follower motivation; and follower motivation and organizational performance. Further, this convergence of holistic development and integrative approaches to leadership presage the type of learning organizations described by Senge (2006).

In the opening pages of his book, Senge (2006) describes learning organizations as places "where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together" (p. 3). According to Senge, these organizations can be identified through the presence of five distinct disciplines:

- **Systems Thinking** – the ability to perceive complete patterns of interrelated events for purposes of producing more effective outcomes.

- **Personal Mastery** – the ability to harness, hone, and develop one’s psychosocial capacity on an ongoing basis.
- **Mental Models** – the conscious and subconscious forms of mental imagery used to shape one’s understanding of, and relationship to, his or her environment.
- **Shared Vision** – An ideal future state that is collectively prized and pursued as a goal.
- **Team Learning** – Engagement in collective dialogues that produce deeper insights than can be achieved individually.

The evolution of leadership theory as articulated above has, when joined with theories of adult holistic development, provided a kaleidoscopic image of the learning organization. The articulation of holistic leadership theory that follows seeks to bring that image into a more unified focus. Emerging from these precepts, holistic leadership is defined as ***a values-based approach to producing optimal outcomes through the collaborative development of all participants in the process, at all levels of functional performance.***

Holistic Leadership Defined

The theory and resulting definition of holistic leadership presented here is not the first or only one attempted. On her website, Orlov (2003) describes holistic leadership as a methodology focusing on systemic development that impacts “oneself as leader, others as followers, and the environment” all resulting in “a journey that leads toward transformation at the individual, team, and organizational/community levels” (p. 1). Taggart (2009) offers a holistic leadership model on his website that he refers to as an “integrated approach to leadership.” It includes components such as organizational teaching, personal mastery, reflection, inquiry, stewardship, visionary and strategic action, results orientation, thought leadership, power-sharing, collaboration, and nurturing. Similar to Orlov, Taggart’s model also addresses a psycho-spiritual triad of personal wellness focused on mind, body, and spirit.

Tice (1993) describes holistic leadership as a people-centered approach that is both process and outcome oriented. Participants at all levels of the organization share responsibility for the activities that contribute to successful functioning and produce an environment where the organization serves more as an interactive and self-reinforcing community than a top-down hierarchical structure. These depictions of holistic leadership align with the prevailing research on adult holistic development which – when integrated with the integrative paradigm of leadership theories – transmute into the singular theory of holistic leadership presented here. A closer inspection of each element of the definition of holistic leadership will illustrate how.

A Values-Based Approach

Leadership ethics is the most readily identifiable example of a values-based approach to leadership. Ethics and moral orientations are values representations and have been directly linked with servant and values-based leadership styles (McCuddy, 2008). However, the very definition of a value suggests that a “values-based approach” can be broadly defined. In quoting Pearsall and Trumbell (2003), McCuddy describes values as those principles, standards, and judgments that one deems as significant or important. He proceeds to suggest that elevating standards on a personal level will not necessarily correlate with what is “good, right, fair and just” according to the standards of others. Thus, a values-based approach in this or any context must be explicitly defined.

The values-based approach of holistic leadership places equal emphasis on the welfare of the individual, the organization, and the larger community. This fragment of the holistic leadership definition finds initial affinity with the stewardship theory. Lussier and Achua (2007) define stewardship within a leadership context as “an employee-focused form of leadership that empowers followers to make decisions and have control over their jobs” (p.386). While this definition functions well as a description of the outcome of a values-based approach to leadership, it obscures the central function that stewardship actually plays in facilitating that outcome.

Stewardship is more appropriately described as the “wise use, development and appropriate conservation of resources that have been entrusted to the care of human beings” (McCuddy, 2008, p. 3). When combined, Lussier, Achua, and McCuddy’s definitions translate into a value element dictating that holistic leadership must cultivate entrusted resources – both human and economic – in a way that supports growth, self-determination, and both individual and collective responsibility. Such a perspective also aligns with the four quadrants of Lips-Wiersma’s and Morris’s (2009) model – developing and becoming self, unity with others, expressing full potential, and serving others – which suggests that a values-based approach is likely to produce working environments that members find meaningful.

Servant leadership expands upon this value element by promoting self- transcendence in the service of supporting the growth and development of others (Lussier & Achua, 2007).

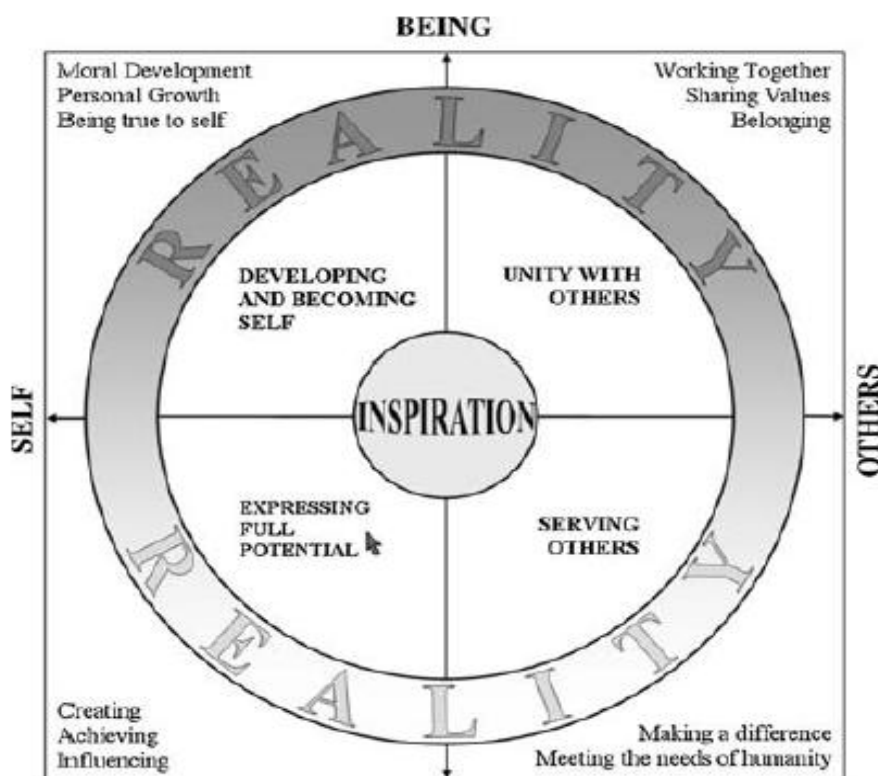


Figure 1: Chart model developed by Marjolein Lips-Wiersma & Lani Morris. (Reprinted with permission)

Characteristics associated with servant leadership include stewardship, active listening, self-awareness, community building, and commitment to growth (McCuddy & Cavin, 2008). In addition, through their research into the relationship between servant leadership and leadership effectiveness, McCuddy and Cavin were able to link servant leadership with moral orientations. McCuddy’s (2005) theory of fundamental moral orientation has three basic categories arranged on a continuum anchored by selfishness on one end, selflessness on the other, and self-fullness in the middle. The values element of holistic leadership aligns with self-fullness in several respects.

First, it accommodates the remaining fragments of the definition of holistic leadership, including the pursuit of optimal performance outcomes in a manner that is inconsistent with selfish goals and supportive of – though not necessarily requiring – selfless acts. Second, it frames leadership values as a balance between “reasonable self-interest and reasonable concern for the common good” (McCuddy, 2008, p 3). Third, it contextualizes values-based leadership theories like authentic and *level three* leadership which both focus on the moral orientations and behaviors of the leader. Accordingly, a values-based approach serves as a precursor that supports and validates the four remaining components of holistic leadership. Namely, it establishes the collective development of all participants in the leadership process as a central principle that will guide future behavior and decision-making.

Producing Optimal Outcomes

A leadership model that does not address performance outcomes has limited utility in practice. The goal of any leadership effort is to direct behavior towards a desired goal. As with other integrative leadership theories, a basic premise of holistic leadership is that it actually supports the achievement of the most desirable outcomes for the leadership unit (organization, group, or individual). The current focus on transformational leadership has produced consistent empirical support for connections between it and team learning and effectiveness (Chiu, Lin, & Chen, 2009), commitment to organizational change (Herold, Fedor, Caldwell & Liu, 2008; Howarth & Rafferty, 2009), job performance (Chung-Kai & Chia-Hung, 2009), and leader effectiveness (Barroso Castro, Villegas Perrián, & Casillas Bueno, 2008; Resick, Whitman, Weingarden & Hiller, 2009). The mediating effects attributable to transformational leadership represent core elements of holistic leadership theory.

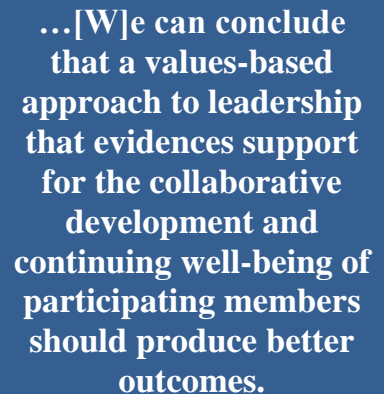
For example, team-based work produces optimal outcomes because it capitalizes upon the collective strengths of team members while redistributing weaknesses so that they can be absorbed and compensated for by the group. Existing literature on the conditions that promote team effectiveness emphasize the interdependence of both members and tasks, the emergence of shared mental models, and an enabling structure that provides psychological safety for team members (Burke, Stagl, Salas, Pierce & Kendall, 2006). These correlations form the basis for asserting that the collaborative development of all participants in the leadership process will produce the types of psychological climates that facilitate optimal outcomes.

Transformational leadership has been empirically linked with team effectiveness in part because of its role in facilitating team learning behavior and a team learning orientation that in turn supports team behavioral integration in ways consistent with the findings described in the Burke et al., (2006) study (Chiu, Lin, & Chien, 2009). Accordingly, the residual effects of the transformational leader’s attention to the specific needs and concerns of individual members – even within a team setting – appear to translate into an increased commitment to the goals of the organizational unit. Likewise, holistic leadership practice leverages these same attributes by inculcating them as leadership values.

Researchers also found a correlation between transformational leadership and creative self-efficacy that was empirically linked not only to an improvement in job performance ratings but objective performance standards like increased sales (Gong, Huang & Farh, 2009). In that study, transformational leadership and learning orientation were associated as predictors of creative self-efficacy. Similar research on transformational leadership and social exchange

theory attribute these connections to the increase in trust and loyalty to leader that transformational leaders engender. Based on this research, it is reasonable to expect holistic leadership practices to produce environments of increased trust and loyalty that extend beyond specific leaders to the collective leadership enterprise.

This set of leadership literature suggests that integrative models engage participants in ways that inspire trust because they demonstrate a commitment to the welfare of the individual. In turn, the individual is inspired to commit to the values of the leadership unit which includes the success of organizational goals and objectives. Thus, we can conclude that a values-based approach to leadership that evidences support for the collaborative development and continuing well-being of participating members should produce better outcomes. The next element of holistic leadership must then specifically address how to demonstrate a commitment to the welfare of individual members through their collaborative development.



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Collaborative Development

Individuals who are brought together by the pursuit of the same or similarly aligned goals represent a unique collective unit. Organizations accomplish their goals through the efforts of their members. Transformational, participatory, and other empowering approaches to leadership link successful outcomes to the ability to encourage employees to align personal achievement goals to organizational goals. Transformational leadership as the most widely researched of the integrative theories, suggests that this link is accomplished through the inspirational vision and idealized influence of the leader. Participatory leadership styles rely on social exchange theory by promoting the involvement of members in exchange for a commitment to advance organizational goals. Holistic leadership extends these approaches by explicitly predicating success in achieving organizational objectives on the personal and professional development of participating members.

By shifting the focus from the charismatic capabilities of a transformational leader to the ongoing relationship between individual members and the organization, holistic leadership offers a more stable and transferrable structure upon which to establish personal and organizational goal alignment. There are at least two residual benefits to this approach. First, individual members of the organization no longer need to experience personal achievement vicariously through the articulated vision of the leader but are instead facilitated in making a direct connection between their efforts and the organization's success. And second, leaders are released "from the burden of creating and carrying the 'meaning' of work and organization" (Lips-Weirsmas & Morris, 2009, p. 505). Moreover, the notion of pursuing goal achievement collaboratively is at the heart of the servant leader model.

In articulating Greenleaf's servant leadership model, Daft (2008) lists four basic precepts: (1) ***put service before self-interest***; (2) ***listen first to affirm others***; (3) ***inspire trust by being trustworthy*** and; (4) ***nourish others to help them become whole***. It is the fourth of these precepts

that speaks specifically to the collaborative development element of holistic leadership while aligning it with holistic development models like the one offered by Lips-Wiersma and Morris (2009). A holistic approach is motivated by more than improved organizational performance. It is committed to the personal and professional growth of participating members, ostensibly putting the former before the latter.

This element is not necessarily a prerequisite of participatory models but is nonetheless compatible with them because it anticipates variability in the capacity of organization members and commits to bringing developmental opportunities to them wherever they are in their growth process. Contingency theories suggest that participation must be limited by developmental level, situational urgency, and the environmental structure in which members operate (Houghton & Yoho, 2005). However, holistic leadership takes a contrary position. Rather than limiting participation based on these contingencies, participants should be developed so that they will be capable of responding appropriately to the tasks or situations that may confront them. Consequently, each member's personal commitment to the organization's success is more firmly rooted because of the organization's demonstrated commitment to each member's personal success. Collaborative development is achieved because the organization's approach is to develop itself and its members together.

All Participants in the Process

To be effective, collaborative development must take the individual capacities of organization members into account. True empowerment and participation provides choice in the form of opportunities to:

- Exercise self-determination;
- Find meaning in one's work;
- Develop self-efficacy; and
- See the impact of one's contributions to the organization's objectives (Houghton & Yoho, 2005).

Holistic leadership theory rests on the central premise that it is only through the opportunity to exercise self-determination that one *can* find meaning in one's work, develop self-efficacy, and see the impact of his or her contributions to the organization's objectives. Therefore, for individualized consideration to result in member empowerment, it must be embedded in institutionalized structures that position all participants in the leadership process closer to the right on the self-determination continuum developed by Ryan and Deci (2000).

The Importance of Self-Determination

According to the Self-Determination Theory (SDT), the presence or absence of self-determination is a composite of motivational tendencies, self-regulatory style, perceived locus of causality, and the dominant regulatory processes employed by the individual (Ryan & Deci, 2000). Each member of the leadership process – regardless of formal position – brings with them their current *motivational tendencies*, which range from amotivation at the left most end of the continuum through extrinsic motivation to intrinsic motivation. Each motivational tendency is coupled with a corresponding *self-regulatory style*. While the first two elements of self-determination reside within the constitution of the individual, collaborative development has the potential to influence the *perceived locus of causality* and the *dominant regulatory processes* by

shifting actual decision-making to the participant wherever possible and anchoring those decisions in pro-social values that support the meaning-making experience in a positive way.

As participants are regularly afforded opportunities to engage in autonomous decision-making, the perceived locus of causality shifts from the impersonal or external on the left most end of the continuum towards an internal locus of causality resulting from repeated opportunities to direct ones' own activities. Similarly, the least determined regulatory processes are described by Ryan and Deci (2000) as non-intentional, non-valuing, incompetence and loss of control. However, actively engaging participants in decision-making processes that relate to their work and supporting their evolving mastery as autonomous decision-makers causes their efforts to become intentional and their contributions to be perceived as valued. They now acquire control and experience-increased feelings of competence. These experiences would be expected to move their dominant regulatory processes to the right, engendering increased interest, enjoyment, and inherent satisfaction.

Houghton and Yoho (2005) cite as a limitation of fully participatory decision-making, the cost of investment when weighed against the potential returns for certain classes of employees (e.g., temporary workers). However, there is no way to avoid the fact that this is a values proposition. When decision-making opportunities are offered to some members but not others, existing power disparities are exacerbated and can only undermine even the best intentions for member involvement.

Social exchange-based theories of leadership rest on perceptions of equity and justice. Further, member perceptions of justice and dignity in the conditions of employment are found to be inextricably linked to the ability to find meaningfulness in their work (Lips-Wiersma & Morris, 2009). When members are afforded opportunities to participate in the decisions that affect them, not only does that contribute to increased feelings of meaningfulness, it engenders a level of trust in their organizations that promotes member commitment to the achievement of an organization's goals. This approach also demonstrates the individualized consideration identified with transformational leadership and helps to routinize it by conveying the residual goodwill from the individual leader to the organization as a whole, as Popper (2004) recommends.

Individually-focused developmental activities also build the functional capacity of the organization by extending the range of talent and expertise available internally. This is an indispensable requirement of any participatory approach that seeks to respond to the inherent vulnerabilities highlighted by situational theories. For all members to have greater access to participation in the conditions of their engagement with an organization, all members must have access to developmental opportunities that will enable them to participate competently and effectively. It is the principle of participant development as a requisite element of leadership practice that distinguishes holistic leadership theory from its paradigmatic counterparts.

All Levels of Functional Performance

The definition of holistic leadership theory presented here infers the demonstration of a commensurate level of leadership on the part of all participants in the leadership process. Consequently, functional performance emerges as a primary concern that must be further segmented into two categories – *functional level* and *level of function*.

Functional level

The multidirectional and interdependent nature of holistic leadership suggests that it is unilaterally applicable across a range of settings and contexts. To be practical, however, this premise requires a unifying construct that is described here as the *leadership unit*. The leadership unit, for purposes of this theory, is deemed to exist in one of four forms that often operate simultaneously. They are:

1. **The / unit** – representing the individual at the intra-psychic level of functioning.
2. **The “Dy” unit** – representing any dyad of two individuals and corresponding to a meso-level class of functioning.
3. **The Team unit** – defined here as consisting of not less than three and not more than seven members,⁶⁰ corresponding with a micro-level of functioning.
4. **The “Weam” unit** – reserved for groups of eight or more individuals, including collections of teams and dyads, organizations, communities, and societies – also representing the macro and meta levels of functioning.

The dictates of holistic leadership apply to any and all leadership units individually and collectively with the understanding that all leadership units are ultimately a collection of “I” units. Therefore, all levels of functional performance as the phrase resides within the complete definition of holistic leadership theory, refer first to the individual capacity to perform as a member in different leadership units. Thereafter, as those leadership units self-organize or are organized externally, holistic leadership theory dictates how Weam (and some team) level leadership units function when formally structured.

Levels of function

Holistic leadership does not conflict with existing hierarchical structures. Rather, it recognizes that collaborative development within a Weam context (i.e., an organizational setting) is best supported within a stable structure so that development at the I-unit level can occur in place. In addition, every type of leadership unit within a Weam context must be able to associate the responsibilities of its assigned function(s) with the broader mission if the mission, vision and values are to be internalized for consistent practice by constituent members. A clearly identifiable structure supports this requirement.

For development of all members of a Weam to occur in place, more experienced members must be appropriately positioned to facilitate and support the development of less experienced members. Thus, holistic leadership also recognizes that development occurs in successive stages or levels of function. The formally designated structure of these stages is of less consequence than the levels of performance that must be represented. Accordingly, holistic leadership theory posits four distinct levels of functional performance at the Weam level: (1) **executive**, (2) **managerial**, (3) **supervisory**; and (4) **frontline**.

The **executive level** is responsible for creating and maintaining a climate hospitable to holistic leadership principles. Executive level commitment is a prerequisite for the successful implementation of holistic leadership practices throughout any collective enterprise. Referring once again to Popper’s (2004) characterization of leadership as relationship, the influence of this leadership unit is on the moral or values level of development. The charismatic content of

⁶⁰ The upper limit of seven was selected based on a study that suggested the optimal team size is between five and seven members (Sharma & Ghosh, 2007).

the leadership relationship can only be successfully routinized if a collective identity exists through which values are transmitted so that individual members can identify and internalize them for meaning-making purposes. This includes the utilization of constructive mental models. The **managerial level** then translates these values into an organizational structure with supporting policies and procedures. This level is distinguished from the **supervisory level** by the latter's function as the direct and proximal reinforcement of holistic leadership practices along with the modeling of those behaviors for the **frontline level**. As Popper (2004) notes, developmental interactions require close interpersonal contact. It is only through these one-on-one interactions that the prerequisite developmental conditions of psychological safety and trust can emerge.

In this respect, the supervisory and managerial leadership units serve critical functions. The supervisory level underscores that all leadership relationships in a holistic leadership framework have a supervisory component that will either undermine or reinforce the salience of holistic leadership principles by virtue of the extent to which supportive psychological climates are established and maintained. The managerial level of function serves as the conduit through which individual psychological climates become organizational climates.

Finally, it is the frontline level whose practice directly impacts upon how different leadership units are experienced by those on the outside and thus validates the extent to which holistic leadership practices are fully functional within a collective setting (e.g., an organization). SDT reminds us that human potential is realized when the three basic needs for competence, autonomy, and relatedness are met (Ryan & Deci, 2000). Frontline level leadership represents the proving ground for whether the prevailing leadership structure meets these needs. Through its emphasis on the collective development of all participants in the process, holistic leadership theory offers a means to do so.

The four levels of functional performance are applicable to Weam units of all sizes. Smaller settings not able to support four levels of supervision will nonetheless need to perform all four levels of function even if those functions are collapsed into fewer hierarchical levels or formal titles. For example, a small nonprofit organization with a limited number of employees must still establish the values for the organization (**executive**), an organizational structure for their implementation (**managerial**), mechanisms for supporting their consistent practice (**supervisory**) and the unfailing fulfillment of those practices with all external participants (**frontline**).

Implications for Leader, Leadership, and Organizational Development

The primary implication of holistic leadership theory as it is presented here lies in its connections between the development of the leader, follower, and circumstance and the interactions that recast leadership as a holistic process (i.e., a function of systems-oriented processes, interacting with and adapting to one another). These processes are theorized to produce the best outcomes when focused on a values-based approach to the collaborative development of all participating members. This view of leadership is implicit in several leadership theories already identified as having informed holistic leadership theory – namely transformational, servant, stewardship, authentic, and *level three* leadership. However, each of these leadership theories rests authority and responsibility with the titular leader as the arbiter and primary instigator of those philosophies in practice. As a consequence, the outcomes even in the most participation-

oriented environments become leader dependent. Holistic leadership theory mediates this limitation.

With holistic leadership, a baseline level of leadership behavior (e.g., self-leadership) is expected and developed from within every participant in the leadership enterprise. This view leads to a more authentic expression of participant empowerment because responsibility is shared rather than conferred. Treating all participants as leaders supports the concept of leaders as partners in the leadership process. Thus, as the traditional leadership profile is transformed, the holistic leader becomes more adjuvant than advocate.

The emphasis on collaborative development as a parallel pursuit with goal attainment comes closer to realizing the aspiration of full participation by organization members than has been realistically articulated by other leadership models. In the present theory, each member of a leadership endeavor is viewed as a full – albeit developing – partner in the process. The enterprise itself serves as both structure and catalyst for the emergence of self-leadership qualities through self-determined activities that allow each member to develop his or her relative capacity to contribute. The leadership hierarchy is then more accurately viewed as a measure of the ability to facilitate growth in self and others, with organizational outcomes serving as external referents for success.

One of the most important facets of these leadership interactions relates to mental models. Mental models are the cognitive processes that shape perceptions of external reality and our personal responses to it. They shape the VABES that Clawson (2009) attributes to leadership performance and are identified as one of the five components of Senge's (2006) model of a learning organization. More importantly, they exist for every member of an organization, regardless of position and thus represent a singular predictor of organizational performance. Holistic leadership theory's potential for the development of the leader, the led, and the organization lies in its ability to influence the mental models of organizational members in a more positive and productive manner.

The lessons learned from overcoming challenges and obstacles have been deemed more instrumental to leadership development than formal training by those who have experienced both (Johnson, 2008). The underlying premise of holistic leadership theory is that the outcomes of effective leadership result from the alignment of values and resulting behaviors between the organization and its members. This is combined with a commitment to the development of all participants concomitant with the pursuit of organizational goals. This approach produces a climate where the pursuit of meaningful purposes can emerge organically, which is consistent with what holistic development reports as the primary motive goal for all human beings. In the process, self-leadership capacity is expanded through the exercise of self-determined activities as participants respond to the challenges and obstacles faced during the ongoing performance of their professional responsibilities.

As a legacy of both transformational leadership and other participatory leadership models, holistic leadership uses the Weam unit (e.g., the organization, community group, agency) to develop self-leaders throughout any collective enterprise by linking task, personal and professional performance, opportunities for self-determination, and expectations for success. As a consequence, organizational development and individual development – at all levels of the organization – become structurally entwined.

The tacit messages that are imparted through the practice of a values-based approach to collaborative development are expected to produce optimal outcomes when adopted as a leadership philosophy within a Weam setting. The mental models that such a philosophy fosters include a belief in the worth of all participants and the value of their contributions, the importance of collaborative approaches to goal attainment, and confidence in the abilities of all leadership units – including / units – to accomplish goals. As these mental models continue to be supported through policy and practice, they are internalized in ways that promote the behaviors highlighted by integrative leadership theories and that result in desired outcomes. Members are inspired, motivated, and committed to the achievement of individual and collective goals.

As mentioned previously, Senge (2006) predicts such an outcome in his description of the five characteristics of a learning organization. As presented here, holistic leadership supports *systems thinking* and *team learning* by virtue of its emphasis on collaborative development; facilitates *personal mastery* through the development of all participants; produces the types of *mental models* that generate desired outcomes; and ultimately positions the organization to *build a shared vision* for the organization's success because the vision is linked to the individual successes of its members, thereby facilitating a sense of meaningfulness in work that is authentic and intrinsically motivating.

Present Limitations and Future Research

The viability of any theory depends upon the extent to which its claims can be validated through empirical investigation. One limitation of holistic leadership theory is that it is based upon a number of assumptions that have yet to be proven. Future research validating correlations between holistic leadership and self-leadership and holistic leadership and the positive outcomes associated with transformational leadership would be useful in this regard. However, holistic leadership theory must first be cast in the form of a testable model of leadership. Such a model⁶¹ has been developed by the author and contains the following salient features based on the theory articulated above:

- A framework of thirty-one leadership competencies that support the practice of holistic values and collaborative development strategies in organized settings; and
- Use of the four levels of functional performance as an organizing framework that produces leadership scaffolds to support the development of self-leadership capacity while preparing participating members for the exercise of increasing levels of self-determination and participatory decision-making.

The current conceptualization of holistic leadership serves as the theoretical underpinning for the above-referenced model. The model can then be used to assess organizational climate as well as individual readiness to adopt the kind of practices that produce learning organizations and empowered participants. More importantly, the theory and corresponding model offer concrete strategies for producing the aforementioned results – something that continues to be needed by leadership practitioners.

⁶¹ For more information on the Holistic Leadership Competency Model, contact the author.

The promise of holistic leadership theory lies in its use as a tool for the development of leadership units of all sizes including Weam level settings that support the dissemination and practice of holistic leadership principles. Organizational culture and climate research would be an appropriate avenue of investigation for this aspect of the theory and could be validated by measuring the influence of holistic leadership practices (i.e., through application of the Holistic Leadership Competency Model) on performance outcomes.

Holistic leadership theory codifies the best of what has emerged from the holistic development and integrative class of leadership theories and synthesizes them into a singular framework that supports further research and refinement. This theory's delineation as presented here, is intended as a first step in that direction. Its propositions are anchored in the wealth of leadership and developmental scholarship that has preceded it and that now stands ready for its next iteration.

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Author Biography

Dr. K. Candis Best is an educator, consultant, speaker, and author. In May of 2008, she made her literary debut with *Leaving Legacies: Reflections from the Prickly Path to Leadership*, an entertaining and moving account of her eleven-year odyssey as a public health executive that was recognized by *USA Book News* as one of the best books of 2008.

Before embarking upon a successful career in public health administration, Candis worked as an attorney in private practice. She is licensed to practice in the States of New York and New Jersey as well as before the federal courts of the Eastern District of New York. In addition to a law degree from Villanova University, she possesses a Masters in Business Administration from Adelphi University, a Masters in Psychology from Capella University, and a Ph.D. in Social Welfare Research and Policy Development from Stony Brook University on Long Island, where she enjoyed the distinction of being a W. Burghardt Turner Fellow. She holds board certifications in Healthcare Management and as a Human Services Practitioner and is a fellow of the American College of Healthcare Executives.

Candis has served as a professor of law, business, research, and public health courses at the undergraduate, graduate, and doctoral levels. Her volunteer activities have included serving on the boards of a variety of philanthropic institutions as well as serving as a volunteer arbitrator for small claims court. A native New Yorker, Candis resides in the Clinton Hill section of Brooklyn.



Social proof argues that organizational members will take their cues about behavioral decisions from the culture before considering what the stated core values are. There is growing research support for the phenomena of culture as the primary driver of employee behavior. These cultures are greatly influenced by the actions of organizational leaders.

A Tale of Two Cultures:

Why Culture Trumps Core Values in Building Ethical Organizations

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Introduction

This paper examines the influence of organizational culture on ethical behavior by considering two separate corporate case studies: *Enron* and *Zappos*. Research shows that organizational culture is a primary driver in employee behavior and that leaders shape this behavior. Despite Enron's statement of its core ethical values, senior leadership actions created a culture of greed that encouraged unethical behavior at all levels. In contrast, Zappos has become renowned for its ethical culture. Readers will learn the importance of alignment between culture and core values as well as how to assess whether an organization's culture will support its statement of core values.

The Enron Backdrop

A Houston courtroom served as the scene for one of the more famous trials of the past decade: the trial of Enron CEO Jeffrey Skilling. From the beginning of his trial through to his sentencing in May of 2006, Skilling maintained his innocence (Gladwell, 2006). During the trial, prosecutors and defenders examined witnesses and experts and presented a host of evidence. However, it was the evidence presented in the court of public opinion that may be remembered the most. Among the ammunition used by journalists and commentators was a company-produced book: the *Enron Code of Ethics Manual*. The Code of Ethics went beyond a few choice words framed and hung on a wall in the lobby. This 64-page manual not only outlined the company's mission and core values, but also the various ethical policies that all employees were expected to follow (Enron, 2000).

Many companies draft core values handbooks and manuals. Most that provide instruction on how to create a core values statement call for senior leadership teams to conduct off-site meetings and compile their ideas about the precise wording of those core values (see Collins & Porras, 1996 for a typical sample). Many times these statements are used as the foundation for organization-wide training programs in the hope of transferring these words into the actions of employees (Patterson, 2010). This is how a simple statement of core values can grow into a 64-page ethics manual so detailed that one begins to wonder how it failed to prevent the scandal that befell Enron.

The Role of Culture

When looking at ethics in organizations, one cannot merely consider core values statements and ignore social proof (Cialdini, 1993). People typically do not look to written codes for clues about how to behave; they look to others. For an example closer to home, consider speed limits. Few people actually limit their speed to the 55 or 65 miles per hour posted on highway signs. Instead, most drive a set speed over the limit ("5 over" or "10 over") depending on the culture of the area. In organizations, employees often decide how to act not based upon an ethical statement on the company intranet or in a policy manual, but by how they see others acting.

Within an organizational setting, there is a growing body of literature demonstrating how culture and climate are crucial to understanding how unethical cultures facilitate unethical and even illegal activity (Trevino, Butterfield & McCabe, 1998; Dickson, Smith, Grojean & Ehrhart, 2001). The ethical culture of organizations has been shown to influence the process and judgment dimension of integrity (Barnett & Varcys, 2000). Incidents of unethical behavior, therefore, often are partially explained by organizational culture (Sinclair, 1993). These incidents help to explain the behavior but also help to shape a culture that influences future incidents, thus creating a cycle of unethical behavior.

Wimbush, Shepard and Markham (1997) examined the link between ethical climate and integrity. The researchers surveyed 525 employees in a national retail, sales-commissioned organization. Ethical climate was assessed using Victor and Cullen's (1987) *Ethical Climate Questionnaire* (ECQ), a 36-item questionnaire used to measure the various dimensions of an ethical climate (the independent variable). Factor analysis determined five factors or types of ethical climate – independence, caring, instrumental law, rules, and service. Ethical behavior (the dependent variable) was measured using vignettes from the *Work Situation Questionnaire* (WSQ) (Shepard

and Hartenian, 1991). The WSQ presents four ethical vignettes derived from newspaper reports of actual ethical situations experienced by business organizations. The four ethical dilemmas covered stealing, lying, disobeying company policies, and serving as an accomplice. Regression analysis was performed for each of the five dimensions and for each of the four dependent variables. Overall, the presence of ethical climate was negatively related to unethical behavior (Wimbush, Shepard, and Markham, 1997). Most regressions were negative and significant (See Table 1 for full summary). Five nonsignificant negative relationships and three nonsignificant positive relationships were discovered. The only positive, significant relationship was founded between instrumental climate and serving as an accomplice (all of the relationships for instrumental climate were positive, though the remaining were nonsignificant). Instrumental climates are marked by employees expected to sacrifice work and personal morals for the good of the company (Victor and Cullen, 1987).

Table 1: Relationship between ethical climate and behavior*

*Reprinted with permission. (Wimbush, Shepard & Markham, 1997).

Ethical Climate		Unethical Behaviors		
	Lying	Stealing	Disobedience	Accomplice
Independence	-	- (n.s.)	- (n.s.)	-
Instrumental	+	+ (n.s.)	+ (n.s.)	+ (n.s.)
Caring	- (n.s.)	-	-	-
Service	-	-	-	- (n.s.)
Law and code	-	-	-	- (n.s.)
+ = Significant positive relationship		- = Significant negative relationship		
n.s. = Nonsignificant relationship				

Wimbush, Shepard and Markham's (1997) results suggest there is a relationship between the ethical climate of an organization and the ethical decisions its employees make. An organization that has shaped an ethical climate and culture should be less likely to house unethical behaviors. The values and behavior of senior leadership is especially influential in shaping organizational culture (Dickson, Smith, Grojean & Ehrhart, 2001). Schein (1985) outlines five primary behaviors that serve as mechanisms leaders use to create and reinforce organizational culture:

- Attention focusing;
- Reaction to crises;
- Role-modeling;
- Rewards allocation; and
- Hiring/firing criteria.

In a case study of the Enron collapse, Sims and Brinkman (2003), demonstrate how Enron's

senior leaders' actions related to all five mechanisms assisted in creating the unethical culture that caused Enron's demise.

The Enron Culture

At its peak, Enron was an energy, commodities, and services company employing nearly 22,000 people (McLean & Elkind, 2004). Based in Houston, Texas, Enron was one of the largest energy companies in the world and had been named "America's most innovative company" for six consecutive years by *Fortune* magazine. Enron was founded in 1985 in Omaha, Nebraska as a natural gas provider, but was reorganized in 1979 to function as a holding company (BBC News, n.d.). The company was regarded as a competitive, talent-focused culture where "stars" were lavishly rewarded and permitted to launch new projects, often without supervision (Gladwell, 2002).

In its annual report to shareholders, Enron listed its core values as follows:

- (1) **Communication** – We have an obligation to communicate.
- (2) **Respect** – We treat others as we would like to be treated.
- (3) **Integrity** – We work with customers and prospects openly, honestly, and sincerely.
- (4) **Excellence** – We are satisfied with nothing less than the very best in everything we do. (Enron, Annual Report, 2000, p. 29).

However, several examples reveal that the culture stood opposed to these core values. Instead of reinforcing the code of ethics and the list of virtuous core values, the actions of leadership established a culture with values of greed and pride. While the printed code of ethics described the company's commitment to "conducting the business affairs of the companies in accordance with all applicable laws and in a moral and honest manner" (Enron, 2000, p. 5) and espoused the virtues of integrity and respect as core values, the behaviors and attitudes of its people often stood on the opposing pole.

Two examples of unethical behavior among leadership best demonstrate how Enron's culture was established and strengthened. Former Enron CEO Jeffrey Skilling was inspired by one of his favorite books, *The Selfish Gene*, (Dawkins, 1976) to establish a grading system for all employees, routinely firing those who failed to help meet the company's performance objectives (McLean & Elkind, 2004). However, the culture of greed is better seen in the actions taken by Andrew Fastow, former Enron Chief Financial Officer and one of the company's board of directors. In an effort to continue to build revenue on Enron's balance sheet, Fastow undertook an elaborate process of establishing special partnerships to bundle assets and secure loans (Gladwell, 2006). The board of Enron, understanding that Fastow's involvement in these partnerships was a violation of its code of ethics, voted to suspend the code of ethics' application to Fastow while these partnerships were active (Berenheim, 2002). Fastow's actions and the board's decision were not kept private, as SEC regulations required the identities of these partnership members to be disclosed.

These actions undoubtedly helped shape the culture of Enron. Taking these two examples into consideration, it becomes clear why reports of unethical behavior were seen at all levels. Consider the reports of former energy traders for Enron who reported boasting between traders during the California blackouts about the various tactics used to decrease supply or increase demand for energy and hence, increase the price of energy (McLean & Elkind, 2004). Despite

public awareness about the dangers of this behavior, no one came forth to speak out against it. Some former Enron employees labeled the strength of the unethical culture as akin to groupthink (Stephens & Behr, 2002, A01). While senior leadership worked to create a statement of core values that upheld the highest ethical standards, their actions shaped a culture that would not meet these standards.

The Zappos Culture

Despite its young age, online shoe retailer Zappos has received a seemingly disproportionate amount of media attention regarding its unique corporate culture (O'Brien, 2009; Chafkin, 2009; Pershcel, 2010). However, this attention is well deserved, as Zappos is considered by many to be a shining example of customer service, culture, and ethics (Chafkin, 2009).

Zappos was founded in 1999. It has since expanded its product offerings to clothing, accessories, and even various overstocked merchandise through its subsidiary companies (Hsieh, 2010). Compared to Enron, the company is small, employing approximately 2,000 people at its headquarters in Las Vegas, Nevada and in its warehouse in Kentucky. Zappos does not just differ in size; it differs drastically in its business paradigm as well. The company places its emphasis on developing its culture and core values around the happiness of both its employees and its customers (Hsieh, 2010). Though not publicly cited by Hsieh or anyone in the Zappos leadership team, the business philosophy of the company appears greatly aligned with Heskett, Sasser, and Schlesinger's (1997) service profit chain; the concept that when a company puts emphasis on employee and customer satisfaction, profit follows invariably (Heskett, et. al, 1994).

It is surprising to learn that the company lacked a formal statement of core values for the first six years of its existence (Hsieh, 2010). Zappos CEO Tony Hsieh believed that writing out core values was too corporate and ineffective. Hsieh was familiar with the offsite retreat homework assignment used by most corporations and did not want to draft a document that failed to reflect the true culture of his employees. Instead, Tony focused first on creating a dignified company culture: one that was committed to exceptional customer experiences (Hsieh, 2010). Hsieh even reinforced this culture by drafting a book of essays about company cultures comprised entirely of employee contributions (Chafkin, 2009). Zappos eventually developed training programs designed to reinforce this internal framework (Hsieh, 2010). Hsieh has even gone so far as to offer to pay employees to quit if they are not a cultural fit (Taylor, 2008).

It was Zappos employees who eventually persuaded Hsieh that they needed a statement of values to represent the Zappos environment (Hseih, 2010). Instead of taking his senior executives off-site to prepare such a statement, Hsieh borrowed the strategy used to create the culture book. Hsieh emailed everyone in the company, asking for their input on what they believed were the core values of Zappos (Chafkin, 2009). Then, like a gardener tending to plants, he pruned and watered certain ideas, combining similar values and expanding on others (Hseih, 2010). Finally, they settled on ten core values, which remain unchanged even today:

- (1) *Deliver WOW Through Service.***
- (2) *Embrace and Drive Change.***
- (3) *Create Fun and a Little Weirdness.***
- (4) *Be Adventurous, Creative, and Open-Minded.***

- (5) *Pursue Growth and Learning.*
- (6) *Build Open and Honest Relationships With Communication.*
- (7) *Build a Positive Team and Family Spirit.*
- (8) *Do More With Less.*
- (9) *Be Passionate and Determined.*
- (10) *Be Humble* (Hsieh, 2010, p. 154).

Once these foundational values were identified, Hsieh knew they had to take root within the organization (Chafkin, 2009). The human resources department eventually would create interview questions to examine candidates' positions on each of these principles (Hsieh, 2010). Once hired, new employees are required to read and sign a statement of acknowledgement, indicating their understanding and acceptance of the company's core values.

It is important to note that Zappos leadership did not lead with a statement of core values. Instead, Hsieh created and reinforced a culture that held these values, and let employees themselves declare it. In this way, Zappos leadership not only created a list of values that employees believed in, but also leveraged the power of social proof to ensure that employees acted on what they believe. The strength of their beliefs would be put to the test on May 21, 2010, when a computer glitch developed on 6pm.com, a Zappos-owned bargain retailer. A flaw in the website caused the price of every product on the site to be reset to \$49.95 (Albanesis, 2010). Within six hours of discovering the error, Zappos employees had fixed the glitch. Then Zappos' Director of Brand Marketing and Business Development made the announcement on the company's blog: Zappos would honor every transaction (Magness, 2010). This decision would cost Zappos over \$1.6 million (Albanesis, 2010). However, it would also serve as another example of how Zappos sought to stay true to its culture and core values and deliver "WOW through customer service" (Hsieh, 2010, p. 154).

Conclusion

The business world has witnessed no shortage of ethical scandals in recent years. In the wake of these, one often begins to wonder how companies that profess a commitment to ethical core values can be guilty of such blatant ethical violations. Social proof argues that organizational members will take their cues about behavioral decisions from the culture before identifying their stated core values. There is growing research support for the phenomena of culture as the primary driver of employee behavior. These cultures are greatly influenced by the actions of organizational leaders. In the case of Enron, despite an ethical statement of values and a lengthy company code of ethics, senior leadership's actions encouraged unethical behavior at all levels. In contrast, Zappos has become renowned for its culture and customer service. The core values at Zappos were drawn from this culture and the actions of leaders at all levels have strengthened it. Even when challenged by a \$1.6 million mistake, Zappos remained committed to delivering on its promises and its core values.

These cases suggest to organizational leaders the need to consider culture as central to building an ethical organization. Misalignment between core values, organizational culture, and leadership behavior can void any desired, positive affect from stating core values. When drafting or promoting statements of core values, leaders ought to first consider whether the culture of the organization will support such statements. Culture audit surveys such as Cameron and Quinn's (2006) *Organizational Culture Assessment Inventory* provide useful tools for assessing the

current and aspired-to culture of an organization, and discovering ways to strengthen the positive aspects of that culture. In this way, leaders can ensure that their virtuous culture supports their virtuous core values.

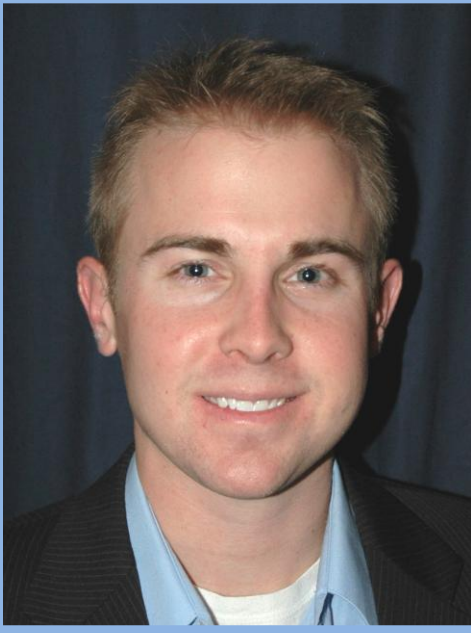
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Four vital components of successful leadership – integrity, competency, emotional intelligence, and vision – act in unison so an individual can effectively stand as a leader... [I]t is reasonable to presume that individuals cannot stand and function as leaders if they exemplify only one or two of these four principles.

Leadership: The Tabletop Concept

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Introduction

Today, students of leadership are inundated with studies, surveys, and research that espouse a wide range of leadership concepts and issues. But four leadership principles in particular – **integrity, competence, emotional intelligence, and vision** – are fundamental to successful leadership. This paper presents these four elements as being analogous to the four table legs that uphold a tabletop. Just like a tabletop cannot remain elevated or functional if there are only one or two table legs, it is reasonable to presume that individuals cannot stand and function as leaders if they exemplify only one or two of these four principles. Likewise, similar to how three table legs can successfully uphold a tabletop for a short duration of time, individuals can also appear to be successful as leaders through possessing only three of the four principles of leadership. An analysis of historical leadership, however, suggests that such individuals are merely momentary leaders who are destined to fail, as they lack a “leadership tabletop” that is buttressed by all four of the “table legs of leadership.”

Leadership: The Tabletop Concept

As the world progresses further into the 21st century, it is commonly accepted that leadership will continue to play an integral role in all realms of society. Regardless of whether it is on the family, business, political, cultural or national level, we can expect to see a multitude of leaders succeed, while also witnessing the downfall of countless others in the coming decades (Peebles,

2010, p. 1). But what determines whether an individual rises to the challenges or succumbs to the demands associated with leadership? Before we address this question, it is necessary to first define what the concept of “leadership” truly is.

Unlike management – which is almost entirely focused on issues such as planning and budgeting, as well as controlling and problem-solving – leadership involves two simple, yet critical, elements: the people and the objective (Conger & Riggio, 2007, p. 136). Specifically, leadership consists of aligning people, to include motivating and inspiring subordinates and peers in a cooperative manner, while simultaneously motivating and communicating the desired direction. Although the concepts of management and leadership are unique and exist independently of each other, it is vital for these two facets to work in unison if an organization hopes to succeed for the long term (French & Bell, 1999, p. 272). Problems arise, however, because the topic of management is largely scientific and quantitative, while leadership is much more theoretical and qualitative.

In fact, many leading scholars recognize the reality that the concept of leadership remains in its growing stages and lacks a grand, unifying theory to provide general direction to thinkers and researchers (Burns, 2003, p. 2). This theoretical article will attempt to remedy this innate shortcoming of the study of leadership by proposing a framework for leadership that is more scientific and less theoretical. In particular, this article asserts that four vital components of successful leadership – **integrity**, **competency**, **emotional intelligence**, and **vision** – act in unison so an individual can effectively stand as a leader. Moreover, this article will provide historical examples that seem to suggest that these four elements are so crucial for leaders to possess that they act in a manner analogous to four table legs that successfully keep a table standing.

Tables & Leaders

In general, a table that is comprised of four table legs upholding a single tabletop is the most functional type of table. Although many people could argue that a tabletop can technically be upheld with only three table legs, most individuals would be hesitant to rely on this tabletop to function. This hesitation is probably wise when considering the simple physics of tables: a tabletop upheld by only three table legs is inherently unstable and prone to tip over if conditions are not ideal. The same holds true for the tabletop of leadership: individuals should be hesitant to rely on leaders to function if they do not exemplify all four leadership fundamentals. Perhaps the reason most humans recognize and acknowledge this tabletop reality is because we can witness it every day in real, tangible ways. Unfortunately, it is more of a challenge to view the realities of leadership fundamentals in equally tangible and personal ways.

A multitude of leadership scholars and writers identify this human inability to hash out what the fundamentals are of leadership, and consequently assert that we must construct a general theory of leadership so we can better grasp the role of individual leaders and their traits (Burns, 2003, p. 9). But what are these “roles” and “traits” that leaders must fulfill and/or exemplify? In a survey involving thousands of participants and spanning six continents, leadership scholars Jim Kouzes and Barry Posner discovered that subordinates most admire the following four characteristics in their leaders: **honesty**, **forward-looking**, **competency**, and **inspiring** (2002, p. 25).

This survey was conducted several times over three decades, but these four personal attributes of leaders were always the top four, regardless of the year or the country in which the survey was conducted (Kouzes & Posner, 2002, p. 26). This extensive survey reinforces the basic definition of leadership, as it reveals leaders must be focused on both the people (i.e., be honest and inspirational) and the mission (i.e., be competent and forward-looking). As such, this paper utilizes these four leadership fundamentals as the four table legs that uphold the tabletop of successful leadership. However, the term “integrity” will be substituted for “honesty,” and “vision” will be used in place of “forward-looking.” Likewise, the term “emotional intelligence” will replace the term “inspirational,” mostly due to the fact that the best of breed rely on more than just inspiration and power to foster interpersonal relationships as leaders (Goleman, Boyatzis & McKee, 2002, p. 248). All of these four leadership fundamentals – integrity, competence, emotional intelligence, and vision – will be defined and described in greater detail in the following sections of this paper.

Table Leg I: Integrity

The leadership verity is that all great leaders possess integrity on the personal level. In almost every book devoted to the topic of leadership, one finds either several sentences, paragraphs, pages, or even an entire chapter emphasizing how integrity and resolute ethical values are crucial to leadership (Ciulla, 2004, p. 3). Although it is fairly ambiguous and encompasses several relevant personal attributes, integrity essentially means that a person’s behavior is consistent with espoused values. Moreover, integrity is a primary determinant of interpersonal trust, as it implies the person is trustworthy, ethical, and honest (Yukl, 2006, p. 210).

When individuals discuss the qualities they admire in leaders, they often use “character” and “honesty” as being synonymous with integrity (Kouzes & Posner, 2002, p. 27). Individuals who embody such character and honesty recognize that simply abiding by laws and legal precedents is not integrity; true leaders must be held accountable to a higher standard of behavior than the government requires, as well as to a higher level of ethicality than most individuals expect from themselves (Ciulla, 2004, p. 36). In short, an individual who is in a position of leadership should strive to “keep alive values that are not so easy to embed in laws – our caring for others, about honor and integrity, about tolerance and mutual respect, and about human fulfillment within a framework of values” (Gardner, 1990, p. 70).

Leaders must be able to elevate their organizations to greater levels of ethicality and their subordinates to greater levels of morality. The keystone of this leadership ability is personal integrity, and organizational shortcomings are inescapable if a leader fails to exemplify this first table leg of leadership. Kenneth Lay, the founder and CEO of the notorious Enron Corporation, serves as a perfect case in point of how one’s tabletop of leadership can come crashing down if the table leg of integrity is absent, regardless of whether or not he/she personifies competency, emotional intelligence, and vision.

Prior to founding Enron in the 1980s, Kenneth Lay held a number of respectable jobs that required him to fully utilize his intelligence and competence as a businessman. Lay, who died after suffering a heart attack in 2006, earned his bachelor’s and master’s degrees in Economics from the University of Missouri. He subsequently served as an officer in the U.S. Navy from 1968 to 1971 while simultaneously pursuing a PhD in Economics, which he was awarded in 1970

from the University of Houston. A testament to Lay's academic credentials was the assistant professorship position he held at George Washington University in 1969 when he was stationed at the Pentagon. After leaving the military in 1971, Lay transitioned back and forth between the private and public sectors on several occasions. He held high-ranking positions at numerous organizations tantamount within the energy industry in the 1970s and early 80s: the Department of the Interior, the Florida Gas Company, the Federal Power Commission, and ExxonMobil's predecessor, Humble Oil (Fox, 2003, p. 8-9). But it was not until he joined the Houston Natural Gas Company as CEO and oversaw its merger with InterNorth in 1985 that Lay solidified his place as a highly competent magnate in the energy industry – he was now the Chairman and CEO of the newly rebranded Enron Corporation (Fox, 2003, p. vii).

Not only did Kenneth Lay possess extraordinary competence, he was also a man who demonstrated a level of emotional intelligence and vision for the energy industry. While a student at the University of Missouri, he served as president of the *Zeta Phi* chapter of the *Beta Theta Pi* fraternity, a position largely dependent on the politics of personal popularity (Fox, 2003, p. 8). He subsequently won further recognition for his ability to develop lasting interpersonal relationships as a leader – all of which seem to suggest high emotional intelligence. He was the recipient of the “Father of the Year” award by the Houston Community Partners, the “Brotherhood Award” by the National Conference of Christians and Jews, the “Distinguished Citizen” award by the Rotary Club of Houston, and even had a day in Texas – “Kenneth Lay Day” – renamed in his honor by the Mayor of Houston (Kenneth Lay, 2010, p. 1).

Lay also demonstrated his abilities as a visionary leader, writing extensively on the future of the energy industry. Before it was a political or economic issue, Lay was an avid proponent of the development and utilization of wind turbines. In an article entitled “Megatrends of Energy,” he stated, “We expect to see not only a convergence of gas and electricity, but also a convergence of environmental and economic efficiency. Efficient power is clear power” (Lay, 1998, p.1). St. John's University sociological professors Robert Tillman and Michael Indergaard further reinforced Lay's position as a visionary when they wrote that he was “widely seen as a free market visionary because of Enron's success in trading natural gas and electrical power” (Tillman & Indergaard, 2005, p. 2-3).

So how and why did Lay's tabletop of leadership come crashing down so quickly and in such dramatic fashion when considering the competence, emotional intelligence, and vision he demonstrated as a leader? The answer highlights the importance of the first table leg of leadership: leaders must exemplify integrity on the personal level if they hope to be successful as leaders. In the case of Lay's leadership tabletop, he cut off his own integrity table leg by explicitly lying to the public and employees of Enron when he went on the record in August 2001 stating Enron had “no accounting issues, no trading issues, no reserve issues, no previously unknown problem issues...” (McNamee & Zellner, 2002, p. 1).

In reality, however, he had received an internal memo five days earlier that called into question Enron's dubious accounting practices, with a Vice President writing that she was “incredibly nervous [Enron] will implode in a wave of accounting scandals” (McNamee & Zellner, 2002, p. 1). The advantage derived from violating his integrity in this instance was almost purely financial. Enron executives were in the process of capitalizing on their “pump-and-dump” strategy for Enron stock. In essence, these knowledgeable individuals – who were led by Ken Lay – were

artificially pumping up the price of Enron stock by publishing fraudulent financial statements that portrayed their company as being highly profitable. This stock, in turn, was bought by unwitting investors, including Enron employees who were proud to work for such a seemingly successful organization. These purported leaders of Enron then dumped their stock and reaped windfall profits immediately before Enron's true financial insolvency was revealed, which consequently resulted in the stock's value plummeting (Tillman & Indergaard, 2005, p. 4-5).

This nosedive in the stock's value had dire implications for the vast majority of Enron employees who were barred from selling their own shares due to a company-imposed moratorium and saw their life's saving evaporate almost overnight (Tillman & Indergaard, 2005, p. 4). This lucrative pump-and-dump strategy and explicit lying on the part of Kenneth Lay is a glaring deficiency in personal integrity. It is no surprise the other three table legs of leadership – competency, emotional intelligence, and vision – could not keep his leadership intact and functioning after his lack of personal integrity was revealed and this first table leg was entirely cut from beneath his leadership tabletop. While he may have been able to rely on the other three table legs for most of his life as a leader, Lay finally confronted a situation that was unfavorable to his tabletop and it consequently fell to the ground in a manner similar to someone bumping a table with only three legs.

Table Leg II: Competency

For decades, leadership scholars have been debating the role personal intelligence plays in determining whether an individual will succeed or fail as a leader (Neider & Schriesheim, 2002, p. 220). After R.M. Stogdill's 30 years of leadership research was published in 1948, many scholars and surveys posited that intelligence is the best predictor of leadership capability (Chamorro-Premuzic, 2007, p. 147). Since then, scholars have found this to be true, but with an important caveat: intelligence predicts leadership success in environments of low stress, but during high stress scenarios, experience is more important (Sternberg, 2002, p. 9).

Perhaps the best way to appreciate the second table leg of leadership, competency, is to consider an example. If you had to be rushed to the hospital due to a life-threatening emergency, who would you prefer to see in charge of the hospital's emergency room (1) a physician who graduated #1 from medical school but has zero real-life experience, or (2) a doctor who graduated last in his/her class but has 30 years of experience? Most of us would answer "Neither of the two!" because a physician who graduated #1 in his/her class *and* has 30 years of experience is the ideal leader in an emergency room. This simple example underscores the necessity of competency (i.e., intelligence and experience working in concert together) as one of the four table legs that upholds an individual's leadership tabletop. General Ambrose Burnside of the Union Army during the Civil War serves as an example of what can happen to leaders who embody the other three table legs of leadership – personal integrity, emotional intelligence, and vision – but are found to be lacking in competency when an organization needs it the most.

Burnside, who is arguably most famous for being the father of today's "sideburns" style of facial hair, earned an appointment to the U.S. Military Academy at West Point and graduated in 1847 as a 2nd Lieutenant in the Army. What is remarkable about Burnside is the extent to which he epitomized the other three table legs of leadership, but was painfully lacking in the realm of military competence. In terms of personal integrity, he is remembered as being "a simple, honest, loyal soldier, doing his best even if that best was not very good, never scheming or

conniving or backbiting” (Catton, 2008, p. 256-257). It is sadly ironic that when President Lincoln asked him to command the Union Army in 1862, Burnside balked, showcasing his personal integrity by candidly admitting to his superiors that he did not possess adequate competency for such a position (O’Reilly, 2006, p. 2).

Burnside was equally impressive when it came to emotional intelligence and his ability to interact with people on the individual level, even as he commanded thousands of soldiers. Historians document him as someone who was very popular wherever he set foot, to include Providence, Rhode Island where he served as the State Governor from 1866 to 1869 and, subsequently, the U.S. Capitol where he was a Senator from 1874 to 1881. The majority of this popularity can be attributed to his leadership charisma, as he made friends easily, smiled a lot, and remembered everyone’s name (Goolrick, 1985, p. 29). Without question, Ambrose Burnside understood that successful leadership involves the mission and the people. Although he excelled at the people component, which is vividly reflected in the lifelong possession and application of his emotional intelligence, he struggled with the mission component during the Civil War. This was most evident in 1862 when President Lincoln directed Burnside to lead his army of 135,000 into combat against 78,000 Confederate soldiers at the Battle of Fredericksburg (O’Reilly, 2006, p. 21).

This Virginian battle – the largest battle during the Civil War in terms of men engaged in combat – was of crucial strategic significance because Fredericksburg was “the shortest road to Richmond” – the capital of the Confederacy (O’Reilly, 2006, p. 21). Although he was already a Brigadier General when the Civil War broke out, Burnside had seen little combat prior to the first shots being fired at Fort Sumner on April 12, 1861. This was, in large part, due to Burnside’s timing: he graduated from West Point too late to experience the Mexican War firsthand, resulting in never refining the military skills or strategy he developed as a cadet (Kingseed, 2004, p. 158). As a consequence of this inexperience, he was ill-prepared for the demands of leadership placed on him at Fredericksburg.

Unlike many generals, Burnside was decisive and immediately enacted his plans once they were reluctantly approved by the War Department (O’Reilly, 2006, p. 25). As the Union Army began its attack on the Confederate Army outside Fredericksburg, numerous complications arose. Logistics immediately became a problem as administrative bungling resulted in the army arriving at the Rappahannock River before the pontoon bridges that were required to cross the river. Rather than ford the river and began an expeditious offensive, as President Lincoln and other generals had prodded him to do, Burnside squandered the initiative (O’Reilly, 2006, p. 24-33). Shortly thereafter, during the core of the battle, Burnside began to issue vague and confusing orders to his subordinates. Likewise, his directives led to strategic blunders that resulted in the well-manned Union Army being undermanned at critical moments, leading one general to even comment “My God...did they think my division could whip Lee’s whole Army?” (Rable, 2006, p. 216).

Rather than reconsider his strategy after suffering vast casualties, Burnside was stubborn in the closing days of the battle. He ordered his forces to continue on the same path and to renew their assaults against the Confederates. When these efforts failed, Burnside’s subordinates were finally able to persuade him to abandon the offensive. In the end, the Union suffered 12,653

casualties while the Confederacy escaped with only 5,377 lost and proved to be a formidable enemy at this pivotal battle in the Civil War (O'Reilly, 2006, p. 499).

Such a dire analysis of Burnside's competency as a general may lead people to presume he was unintelligent and a lackluster visionary. In reality, however, he was quite the opposite. In addition to his successful campaigns in state and federal politics, Burnside garnered significant notoriety in the railroad industry. He was the president of myriad organizations, including the Cincinnati-Martinsville and the Indianapolis-Vincennes Railroads. Burnside is also popular among gun enthusiasts today due to his stint as the first president of the National Rifle Association (NRA).

Moreover, Burnside was a visionary leader within the rifle industry and showcased his ingenuity as an inventor in this field before the Civil War. He invented and manufactured a new breech-loading rifle as well as his own carbine, which was reviewed as being "the best of all cavalry carbines during the [Civil War], in which more than 55,000 [carbines] saw service" (Marvel, 1991, p. 11-12). Overall, Burnside was a very intelligent individual who was both creative and visionary in his endeavors. So how could a man who so powerfully demonstrated integrity, emotional intelligence, vision, and intelligence off the battlefield fail so miserably as a leader when tens of thousands of human lives were on the line?

The answer is painful to admit but straightforward nonetheless – he was incompetent as a military general. This is an important leadership lesson that has tremendous implications for us all: success as a leader in *most* realms of society does not equate to successful leadership in *all* realms. Ambrose Burnside is but one historical example of this leadership tenet. For example, if George Washington was placed in an emergency room today, no rational individual would want him in charge. As stated previously, a physician who graduated #1 in his/her class and has 30 years of experience is the preferred leader in an emergency room. This does not discredit George Washington's distinguished leadership abilities, but instead underscores that we all want competent leaders making the decisions given particular circumstances. Burnside's incompetency resulted in his entire tabletop of leadership falling down when he confronted another leader at Fredericksburg who possessed a leadership tabletop strongly buttressed by all four of the table legs of leadership: General Robert E. Lee.

Table Leg III: Emotional Intelligence

Whether it is in the workplace or elsewhere in society, everyone has witnessed the awkwardness that ensues what an individual who is seemingly qualified to lead others simply lacks the people skills that are intrinsic to successful leadership. While this awkwardness may seem harmless from an external perspective, it often erodes the efficacy of the entire organization internally. Emotional intelligence, which is the foundation of dynamic, industrious interpersonal relations with others, encapsulates this ambiguous idea of people skills within the leadership framework (Bass, 1999, p. 106). It is defined as a person being attuned to his or her feelings, and the feelings of others, and the ability to assiduously integrate emotions and reason (Yukl, 2006, p. 219). But emotional intelligence is also much more.

Similar to social intelligence, it includes one's level of sociability, friendliness, thoughtfulness, and self-monitoring. Unlike social intelligence, however, individuals with high emotional intelligence also exhibit emotional maturity, conscientiousness, emotional stability, as well as freedom from narcissism, mood swings, and neuroticism (Bass, 1999, p. 106). In essence,

emotional intelligence results in people better controlling themselves, which in turn enables them to better control others as leaders. As Stanford professor Robert Sutton explains in his best-selling book *The No Asshole Rule*, “Certainly, people with high emotional intelligence who are skilled at taking the perspectives of people they encounter and at responding to their needs and feelings are pleasant to be around and well suited for leadership positions” (2007, p. 18). Unfortunately, emotional intelligence is not innate in all humans. For General George Patton, the absence of this third table leg of leadership was the crux that caused his leadership tabletop to wobble unsteadily throughout his entire life.

By all accounts, Patton exemplified excellence in personal integrity, competency, and vision. As he progressed to the highest echelons of military command during World War II, Patton repeatedly demonstrated a high level of integrity as he demanded all human beings be treated with due respect. Concerning the Allied countries utilizing German forced labor, Patton wrote, “I’m opposed to sending [prisoners] to work as slaves in foreign lands...where many will be starved to death.” Furthermore, Patton possessed a macro-level perspective of universal morality, commenting, “It is amusing to recall that we fought the [American Revolution] in deference to the rights of man and the Civil War to abolish slavery and have now gone back on both principles” (Dietrich, 2002, p. 127). Though politically incorrect in his language, Patton was a strong advocate of the philosophy that individuals should be evaluated based on performance, not on race or religious affiliation. He boldly declared, “I don’t give a damn who the man is. He can be a nigger or a Jew, but if he has the stuff and does his duty, he can do anything I’ve got. By God! I love him” (Hirshson, 2003, p. 412).

Patton possessed a comparable level of competency and vision as a leader. Whether it was enemy combatants or his fellow generals, Patton was a legend for his superior abilities as a commander. German Field Marshal Rundstedt is documented as claiming, “Patton was [the Allies’] best” and Omar Bradley ranked him as one of the top American generals in the European theater during WWII (Weigley, 1981, p. 758). Even more impressive, political leaders at the highest levels recognized Patton’s proficiency. Adolf Hitler once remarked that Patton was “the most dangerous man [the Allies] have” and Joseph Stalin even conceded his Red Army was not capable of planning or executing an offensive like Patton did in France (Irving, 1977, p. 677).

Patton also proved his worth as a visionary leader during the First World War and the subsequent interwar years. Working alongside Dwight Eisenhower, Patton was one of the fathers of the Army’s tank warfare doctrine, which would be employed during WWII. Patton’s extensive research and publication of work supporting the development of tanks, including a notable article entitled “Tanks in Future Wars,” serve as testaments to his abilities as a forward-thinker within the military (Hirshson, 2002, p. 156). But even visionary leaders who demonstrate immense personal integrity and phenomenal competency struggle as leaders if they suffer from low emotional intelligence; General Patton was not an exception to this important precept within the tabletop concept of leadership.

Throughout the duration of his career as a military officer, Patton earned an iniquitous reputation for his “harsh methods, his unbending personality, his arrogance, his profanity, and the sheer wrath of his notoriously volatile temper” (D’Este, 1995, p. 3). Perhaps it was because he felt the results were all that mattered as a leader, but Patton disregarded his lack of emotional intelligence and “delighted in the contradictions of his own personality” (Axelrod, 1999, p. 11).

Unfortunately for Patton, the American public and military had a different perspective on leadership, which was manifest in the infamous “slapping incident” of 1943. During this regrettable episode, General Patton slapped a soldier – who was bedbound at a European hospital at the time but was later found to have been suffering from malaria – across the face because he claimed to be incapable of going back into battle (“Gen. Patton Slap,” 1970). The fallout was swift and undercut Patton’s legitimacy as a leader. His superior, General Eisenhower, considered sending him home in disgrace, but opted to keep him in Europe after consulting the Army’s Chief of Staff and ensuring Patton would not be in charge of a major command (D’Este, 1995, p. 534-539).

Patton’s life was tragically cut short in December 1945 when he passed away due to a pulmonary embolism after a minor automobile accident. Although it is impossible to know with certainty, it is fair to presume Patton’s potential as a leader reached a plateau during WWII. His tabletop of leadership – which was robustly supported by his integrity, competency, and vision – was able to function devoid of emotional intelligence due to the reality that the ends typically justify the means on the battlefield. In other words, Patton’s authoritative, impersonal style of leadership meshed well with the demands of military leadership during wartime. Off the battlefield, though, leaders had to have been capable of finding other ways to influence and direct people to accomplish the job besides just barking orders at them. This truth is evident when one analyzes the correlation between Dwight Eisenhower’s relentless exemplification of emotional intelligence – which worked in concert with his personal integrity, competency, and vision – and his success as a leader in both the military and American politics (Davis, 1995, p. 528).

Table Leg IV: Vision

The final table leg of leadership that underpins all successful leadership tabletops is also arguably the most difficult to grasp its full importance. Vision, which conveys an image of what can be achieved, how it can be attained, and why it is worthwhile in the first place (Yukl, 2006, p. 314) is what leadership is all about according to Jim Collins in his best-selling book *Good to Great* (Collins, 2001, p. 74). People want leaders to have a sense

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**“Where there
is no vision,
there is no
hope.”**

– *George Washington Carver*

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of direction and possess the ability to set or select a destination toward which their organization should head (Kouzes & Posner, 2003, p. 28-29). In other words, leaders must be proactive, rather than reactive, in their vision for their organization so they can be more effective and efficient in shaping goals and/or outcomes (Levinson, 1989, p. 67). Some leadership textbooks have even portrayed vision as the pinnacle of strategic leadership – the culmination of supporting elements such as mission and strategy (Daft, 2008, p. 389).

What is amazing is how both subordinates and great leaders alike appreciate the role vision plays in upholding successful leadership tabletops. More than 70% of participants in a leadership survey selected the ability to look ahead as one of their most sought-after traits they desire leaders to exhibit (Kouzes & Posner, 2002, p. 28). Successful leaders capitalize on the reality that such vision is in

short supply and act accordingly. In the words of Wal-Mart founder Sam Walton, “Capital isn’t scarce; vision is,” while George Washington Carver stressed that “where there is no vision, there is no hope.” Collins and his research also highlighted the simple fact that each of the 11 companies they analyzed that made the transition from good to great had a vision for greatness that was instilled by leaders who recognized “good is the enemy of great” (Collins, 2001, p. 1, 71). In a similar fashion, one can analyze past American presidents and conclude that the determinant in whether individuals are remembered as good *managers* or great *leaders* is the degree to which they exemplified the fourth table leg of leadership: vision.

Regardless of political affiliations or preferences, most Americans can agree a venerable personal skill set is a prerequisite to be elected President of the United States. But why is it that some of these great individuals elected to our nation’s highest office – all of whom typify personal integrity, competency, and emotional intelligence during their time in the Oval Office, barring several notorious exceptions – become known as “great Presidents,” while others are merely labeled “past Presidents?” According to presidential historian, Garry Wills, “Great presidents possess, or are possessed by, a vision of an ideal America,” and to succeed as the commander of the ship that is our nation, “presidents must not only have a port to seek but they must convince Congress and the electorate that it is a port worth seeking” (Wills, 2002, p. xvi-xvii). In a 2010 survey of 238 presidential scholars, the Presidents who comprised the top five rankings did just that; they had a vision that would make the United States great and set a course to achieve this during years in the White House.

These five Presidents – Franklin D. Roosevelt, Theodore Roosevelt, Abraham Lincoln, George Washington, and Thomas Jefferson – all served as President at least 60 years ago, but their legacy lives on today because their visions had ageless implications for the country. For F.D.R., it was his New Deal legislation that employed Keynesian economics to lift the U.S. out of the Great Depression as well as augmented the role of government in national affairs that solidified his place as one of America’s greatest Presidents (Haugen, 2006, p. 68-70). Teddy Roosevelt also had a vision to make the U.S. great for the populous during his time and for generations to come. Although a conservative President, he injected more government into the American landscape by establishing the National Parks and Monuments that are an invaluable asset today (Ayers, Gould, Oshinsky, & Soderlund, 2009, p. 598).

Needless to say, George Washington and Abraham Lincoln also epitomized vision. Washington is immortalized today “as a visionary leader of the highest degree” for his inextricable role in the founding of the United States (Rees & Spignesi, 2007, p. 3). As the sixteenth President, Lincoln carried this “idealized vision of America as put forth by Washington” into the nineteenth century through a series of audacious, far-reaching actions (Rees & Spignesi, 2007, p. 4). Such valiant actions as the Emancipation Proclamation in 1862 and the Gettysburg Address the following year, both of which were direct outcomes of Lincoln’s vision, acted as catalysts for the pivotal equality movements that were to follow. Finally, Thomas Jefferson left his imprint on the U.S. through his vision of America as an economic and political powerhouse in world affairs. This vision resulted in him overseeing the acquisition of the Louisiana Territory, effectively doubling the geographic size of the young nation and ensuring economic prosperity for centuries to come, in addition to commissioning Lewis and Clark to explore the uncharted West (Stewart, 1997, p. 49).

When one contrasts these five Presidents with the Presidents ranked in the bottom five from this survey of 238 presidential scholars, it is readily apparent that what delineates “great Presidents” from “past Presidents” is vision – or lack thereof – and the corresponding outcomes produced as a result of this vision. Most Americans probably would not even recognize such names as Franklin Pierce, Millard Fillmore, or Warren Harding, largely because these men occupied the Oval Office but failed to execute a vision or set a course for the nation. This leadership concept spans the spectrum of society: leaders must possess and communicate a vision for their respective organization. Failure to do so will result in them being remembered as individuals who merely occupied a position of authority in the past, rather than esteemed as leaders in history. It would consequently be prudent for all individuals to ensure they possess vision if they hope to succeed as leaders, as this is one of the four table legs that guarantees an individual’s tabletop of leadership is steadfast.

Conclusion

The bottom line is clear: individuals must possess all four of the table legs of leadership – integrity, competency, emotional intelligence, and vision – if they are to succeed as leaders. One or two table legs are always insufficient to uphold a tabletop, and the same holds true for the tabletop concept of leadership. History suggests individuals can get by for extended periods of time with only three legs upholding their individual tabletops of leadership, as Kenneth Lay, Ambrose Burnside, George Patton, and the legacy of American Presidents have proven. But similar to a table that has only three legs, if unfavorable conditions confront this table, then the leadership tabletop will come crashing down. This is a concept that transcends all realms of society and that all students of leadership can learn from – and apply in their own lives – every day.

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Joseph P. Hester



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Ethics is everywhere in our daily lives. It lies behind many of our choices, whether personal or political or bridging the division between the two. Sometimes it comes easily and naturally to us; in other circumstances, it can be very demanding. But ethics intrudes into our conscious lives only occasionally, and often in a confused way. If we are to make properly considered ultimate choices, we must first become more aware of the ethical ramifications of the way we live. Only then is it possible to make ethics a more conscious and coherent part of everyday life.

– Peter Singer, Writings on the Ethical Life

The Leader as Moral Agent: Praise, Blame, and the Artificial Person

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Introduction

Ethics is normally thought of as a system of simple rules that guide how we live our lives. For the ordinary person, this comes to living by the principles enshrined in religion or accepted as customarily the “right” way to live. Emphasized in these rules are honesty, fairness, responsibility

for one's behavior, and respect for others. Perhaps, deep down, many still believe in the sanctity of human life, all life. Of course, an ethic or moral theory should take an impartial view – sometimes referred to as “universal” – which means that in making ethical judgments, we go beyond our own likes and dislikes and give equal consideration to all who are affected by our decision-making. Moral integrity implies commitment to these principles and this involves a commitment to each other, to our tasks, and to the exercise of moral responsibility within our spheres of influence (Hunter, 2010). Peter Singer (2000) adds, “We are responsible not only for what we do but also for what we could have prevented. ...We should consider the consequences both of what we do and what we decide not to do.” On this account, the moral agent is one who not only knows the difference between right and wrong, but cares about it as well. Yet, caring is not enough; the moral agent is one who knows how to resolve moral conflicts and is willing to act on ethical principles. Remaining faithful to our moral obligations implies both a commitment to and the ability to freely choose and make decisions – a moral agent is an autonomous person. Thus, a moral agent (either a person or a corporate body that speaks for and obligates others) is responsible for making and carrying out his/her decisions. Yet, the leader as moral agent is a concept that has perhaps been muddled and confused or even ignored in the history of modern corporate living.

The question of moral autonomy just may be the *sine qua non* of moral theory. Traditionally, only autonomous individuals are to be assigned moral blame or praise for their actions. But can we think of a moral agent independent of the social customs that define his or her mores or the role s/he plays as *homo economicus*? Thomas Hobbes was the first among modern thinkers to address this problem. He labeled those “who spoke for others” as *feigned* or *fictional* persons. Indeed, a leader is one who speaks for others, but we cannot conclude that leadership is only assigned the responsibility of being the overt voice of the corporation. More needs to be said, for certainly corporate decision-making casts a much wider net. The purpose of this paper is to restructure and clarify this idea.

Historical Background

Ethics has a long history, one that parallels developments in society, including the rational movement known as the *Enlightenment*, the *Industrial Revolution*, and the development of modern corporate organizations. As these developments unfolded, ethics began to lose its footing in both religion and natural law and distanced itself from the Victorian notions of fraternity, virtue, and the polite society. Perhaps the ethics we're referring to were only indigenous to the upper classes in Western societies, leaving the middle and lower classes at the mercy of the principle of survival of the fittest. At any rate, as cities grew larger, corporations lost their local footing, becoming national and international in both trade and influence. Within this scramble for economic prowess, the foundations of ethics became ambiguous as the decision-making process passed from individuals to corporate boards, trade commissions, the influence of the market, and government regulators. Given the worldwide financial crisis of 2009, many believe that both government and corporate leaders should embody ethical principles and remain faithful not only to what the law permits, but to certain moral obligations. This is sometimes referred to as “role morality,” but these obligations are becoming more and more difficult to define and regulate – in law or in practice. Even more burdensome is how to place praise or blame for decisions made by corporate boards. Rushmore M. Kidder (2009) says that the financial crisis of 2009-2010 is primarily an “ethical recession” and not so much a political

or economic one. Kidder states that “We need a language of ethics” that is applicable to corporate and organizational society. The Institute for Global Ethics (2009) summarizes, “Here, Kidder reflects on our progress in redefining ethics away from mere *compliance* and into *values*, and he comments on the sudden jolt that has shifted moral progress from an evolutionary to a revolutionary process. He calls on us to respond to the crisis — not simply by creating *more ethical individual leaders*, but by building *more ethical organizational cultures*.”

One consequence of these changes has been the loss of a moral foundation as ethics became entangled in a morass of psychological relativism and utilitarian consequentialism. Utilitarianism makes the point that the goals we seek determine and justify the means we use to accomplish them. Being goal-oriented has been the major focus of utilitarian principles and has often overshadowed the “means” used to accomplish these goals. From a moral perspective, both are important and require the application of ethical principles by persons and corporations to safeguard the rights of all who are touched by their decisions. Another consequence of adopting both utilitarian principles and role morality is that the individual once thought of as an “independent self” – a person of both integrity and influence – and granted such metaphysical properties as freedom of choice and decision-making, has lost much of its meaning. Social theorist Max Weber (1956) reminded us that the individual is more a product of society and culture than a creation of divine law, imbued with an internal moral compass. This idea is today deeply embedded within corporate culture. Ethics now seems divided between applications to persons on the one hand and to social groups, corporations, and governments on the other. In the early days of the first Industrial Revolution, Thomas Hobbes (*Leviathan*, 1651) wondered if the corporate entity – the fictitious person – could be held morally accountable. Thus, we are compelled to ask if the leader – CEO, owner, corporate board, government official, etc. – can be held morally accountable or if this is an idea that has slipped into our ancient past?

In a recent conversation with H. Darrell Young (2010), CEO of CareCentric in Atlanta, Georgia, he mentioned that one of the problems – perhaps anticipated by Kidder – is that “value,” “ethics,” “character,” and what is considered to be “right” behavior have become a moving target. As such, “what is right” has been defined by each generation, each organization, and each corporation to be “what is in their best interest.” Young believes that within large and small corporations value flows “down,” not “up.” Therefore, if a board of directors or CEO remain uncommitted to a defined concept of ethical behavior, it is likely that position leaders and followers within the corporation will not be either. On the other hand, even if there is a commitment to ethics at the top, there is no guarantee that ethics will permeate the entire organization. “Vigilance and moral maintenance are required to offset the ethics recession of our times,” Young says.

Leadership and Moral Responsibility

Leadership

H. Darrell Young (2004) writes that there are five basic things we know about leadership. As CEO of a national healthcare corporation, the following ideas are the results of his study and practice:

1. Leadership development is a commitment to self-development and is achieved through lifelong learning, thinking, and consistent ethical living.
2. There is no one set way to lead.
3. Character is the foundation of leadership.

4. The cost of leadership is beyond what most people are willing to pay.
5. Because nothing happens until someone steps up, everything rises and falls on leadership.

These five observations are pertinent to the definition of “moral agent.” They emphasize consistent ethical living, the development of one’s moral character, the cost of following the principles of ethics, and the care one has for others. Young also notes the importance of the leader who has influence over the decision-making process of the board, committee, or congress. Several things emerged out of Young’s study and practice of ethical leadership:

When strength is joined with compassion, others are liberated; when severity is balanced with gentleness, others begin to grow; and when patience is balanced with decisiveness, others begin to act responsibly. — H. Darrell Young

1. The first is managing one’s environment, which involves determining the values and beliefs of the organization and helping develop strategies for accomplishing one’s goals. In this regard, he says that accurate self-assessment is important.
2. The second thing is managing one’s self. He notes that leadership is a process of lifelong self-development and change that requires a balance of behavior and the exercise of discipline. The emphasis here is on continuous improvement.
3. Young also emphasizes influencing and serving others. He counsels would-be leaders to “divest of themselves and invest in others” by enabling, empowering, and serving them. He mentions that leaders are both followers and coaches who create value through performance. Young’s maxim: “Performance, not promises,” captures the meaning of this point.
4. Although leaders possess power, position, and privilege, they should join these to ethical principles. Young says, “When strength is joined with compassion, others are liberated; when severity is balanced with gentleness, others begin to grow; and when patience is balanced with decisiveness, others begin to act responsibly.”
5. Finally, Young points out that the leader as moral agent understands that leadership is not about selfishness and personal gain, or being distant and impersonal; rather, leadership is earned and the true measure of leadership is the leader’s influence or ability to get others to willingly participate in setting the goals and developing the strategies of the organization.

Moral Responsibility

The realities of contemporary society characterized by its overlapping of views of ethics remain strident supporting what is known as social pluralism. On the other hand, the idea of moral accountability, traditionally applied to particular persons as moral agents – persons who are capable of acting freely and deliberately – is a view that may not have lost its potency. The

worldwide financial crisis of this decade and the senate hearings that followed in 2009, the involvement of Americans in Middle Eastern wars, and statements issued by British Petroleum in the wake of the disastrous oil spill in the Gulf of Mexico are examples of a moral duck-and-cover mentality that is pervasive in all areas of life and perhaps a telltale sign of moral relativism and consequentialism run amuck. Our own reflective intuition tells us that reason is still important and although ethics beg the question of scientific analysis, many think that we can apply reason – logic and critical thinking – to our choice-making and to our ideas of right and wrong behavior. Entangled with our ethical commitments are various religious ideas and dogmas. In Western culture, with the strings of Christianity still tugging at our coattails, many are hard-pressed to give up ethics as person-centered and evoke the simple teachings of bygone days as important for defining persons as catalysts of moral responsibility.

Moral responsibility and an understanding of personal morality – the acknowledgement that we have hurt others or otherwise done something unethical – has somehow managed to slip through the cultural fabric of our time. It has been replaced with a corporate culture that is able to cherry-pick those ethical values that serve a bureaucratic or social/occupational interest with the concomitant loss of the person as an independent and rational moral agent. Some also believe that looking after one's own personal self-interests is not only one's duty in a democratic/capitalistic society, but that it should be one's top priority. This is the point of view of normative egoism – that we ought to look after ourselves first – and relativism – that personal truth is the only truth that is necessary because my effectiveness as a leader is about me. It is an unwarranted, narcissistic focus on self-image and personal success.

This confusion of moral responsibility in which personal and socio-economic roles overlap compels us to ask, “Is the understanding of ‘leader as moral agent’ a relic of the past that is no longer applicable in the corporate world of the 21st century or is it just a convenient myth, perhaps propagated by the ancient Greeks and early Christians to instill obedience and individual responsibility into the masses?” One can conceivably argue that it is not that individuals do not make decisions that can be thought of as ethical or unethical, but they are not to be praised or blamed for their decisions. This is because they believe they have been coerced or pressured by corporate and business realities to make their decisions. The corporate mentality of *groupthink* and group decision-making often determines the context and action of a leader's decision. It is conceivable that the leader is a working part of this *groupthink* mentality, a process that covers individual responsibility for actions taken by the group (board of directors, trustees, board of elders/deacons, etc.). Thus, the leader may believe that his/her decisions were jointly made and not coerced at all.

Groupthink: An Ethical Compromise

In the late 1970s, Janis and Mann (1977) developed a theory of decision-making for occasions when the issues are strongly laden with emotion. They described the various patterns of coping behavior common in such conflicts and their consequences for rational decision-making, affirming various techniques for coping constructively with stress, primarily relying on vigilance. It is a truism that decision-makers need to be adequately informed before making decisions that affect others. They need to consider all the options available to them and also reconsider the emotional impact that is likely to accompany their decision, its aftermath, and come to grips with both the emotional responses in their discussions and the consequences that follow (Taylor,

2000). Needless to say, decision-makers as leaders should have a certain maturity of outlook and thought. This maturity is expressed in a sense of self-worth, a sense of belonging, a sense of expectancy, a sense of responsibility, a sense of accountability, and a sense of equality (DePree, 1989). This was not the case for the CEO of British Petroleum who recently said of the oil disaster in the Gulf of Mexico, "I was not a part of the decision-making process for that oil well." With that statement one can question the legitimacy of his role as leader and ask if he was unaware of the workings of his oil wells, then what policies were put in place, and by whom, to insulate him and others for violating government and company standard working procedures?

One of the outcomes of the above method of decision-making involves *groupthink*, a term introduced by William H. Whyte in a 1952 article in *Fortune Magazine*. Groupthink is characterized by a group (organization) that feels invincible and extremely optimistic. The group reaches a decision without allowing members to express doubts about it. Members shield themselves emotionally and physically from any outside information that might undermine their decision. Finally, the group believes its decision is unanimous, even when unexpressed opposition exists. Since disagreements that exist both inside and outside the group are blocked, the decisions can often fail to achieve the desired result (Taylor, 2000).

According to Janis and Mann, "Decision-makers are often reluctant to take action, are beset by conflict, doubts, and worry, and struggle within incongruous longings, antipathies, and loyalties." They seek relief by procrastinating, rationalizing, and denying responsibility for their own choices, meaning defensive avoidance which in many cases is a kind of "ethical compromise." And when decisions are not ethically based, poor decisions are often made. We would argue that a collective pattern of ethical compromise characterizes the "groupthink decision dynamic." This dynamic is promoted when the group is highly cohesive, when it is insulated from outside criticism, when the leader is autocratic, and when the group does not search for and critically evaluate other options. Instead, group members rely on shared misconceptions and rationalizations. Ethical oversight is often neglected and they tend to make compromises that affect their commitment to ethical principles and to those whom their decision affects the most. Johnson and Johnson (1987) have observed eight symptoms of *groupthink*:

1. **Self-censorship:** Each member minimizes any doubts about the apparent group consensus.
2. **Illusion of unanimity:** Each member assumes that everyone (except oneself) is in agreement.
3. **Direct pressure on dissenters:** Anyone expressing doubts is pressured to conform.
4. **Mind guards:** Certain group members try to prevent dissenters from raising objections.
5. **Illusion of invulnerability:** Members develop an illusion of invulnerability, characterized by unjustified optimism and extreme risk-taking.
6. **Rationalization:** Group members invent justifications for whatever action has been taken or about to be undertaken, thus preventing misgivings and appropriate reconsideration.
7. **Illusion of morality:** Members ignore the ethical consequences of the favored options and assume that the group's actions are morally justified.
8. **Stereotyping:** Group members dismiss competitors, rivals, and critics as too weak or ignorant to react effectively or as too evil to justify genuine attempts at negotiations.

Groups many times make poor decisions, not because they have overlooked viable alternatives or options, but because they have done a poor job evaluating each option and choosing among

the considered options. Systematic evaluation is painstaking in that each option needs to be subjected to a thorough analysis of its advantages and disadvantages before making a final decision. The more exact the systematic evaluation, the less likely some viable alternative will be overlooked. To ensure that diligent information processing takes place, Janis and Mann have recommended that the evaluation should include the following:

1. The tangible gains of the group.
2. The tangible gains and losses for significant others.
3. Group self-approval or self-disapproval. (How will we feel if we make a certain choice?)
4. The approval or disapproval of the group by significant others. (Will the important people we are connected with think we made the right decision?)

On the other hand, groupthink has been proven beneficial for it relies on the common sense intuitions of group members and evokes a top-down management philosophy. Therefore it provides a coordinated, homogeneous response that represents the group or corporation as a whole. It is a kind of common sense paradigm for explaining and reacting to the world or their business environment. But groupthink can also be a problem. Zohar and Marshall (2004) have observed that “those who deviate or hold minority opinions or unpopular views can serve a positive purpose in groups, since they cause the group to reexamine the problem and alternatives.” Minority opinions, especially those that cut against the grain of top-down leaders, are not easily handled. Many of these opinions come from employees who are experts in their particular fields. But group conflict inevitably arises and is fairly common. Gray (1984) comments, “Conflict can be a creative force if managed properly, but the *groupthink* phenomenon prevents this from happening, since conflict is never allowed to occur.” A more accurate observation is that such conflict is usually confined within the group where members are sworn to support the majority opinion and not discuss the disagreements leading up to it.

[L]eadership is more about influence than position and more about behaving ethically than giving orders that obligate others to our missions and strategies.

Beginning with Descartes and his doubt, the modern mind has wanted to break free of the limitations imposed by tradition-bound society and unreflective thought—from Groupthink. It has wanted to break away from habit or revelation, and “hand-me-down” ideas, but in doing so we have fallen into a new groupthink pattern, possibly substituting expediency and greed for ethical decision-making and hiding the decisions that are made within the consciousness of the group rather than the people making the decisions.

Praise, Blame, and the Artificial Person

E. Wolgast (1992) writes, “By their standing in place of someone else whom they ‘personate,’ their [the leader’s] actions become the actions of others.” And here is the rub: when the leader – as a person or a group – leads the company into unethical practices with harmful results, how far down does the blame and retribution go? Has groupthink dissolved the leader’s moral responsibilities? There is a snowball effect that comes into play here; workers (in leadership literature, called “followers”) are required to carry out daily activities that support the purposes of

the corporation. These workers, in their separated departments and specialized work, carry out their jobs efficiently, hoping to move up the organizational ladder of success, but perhaps are uninformed and unaware of the ethical or unethical consequences of their collective pursuits. Who is to blame and who is to be punished when the public or the government discovers what has been done?

This conversation necessitates that we re-consider the role of the leader, in any organization, especially “the leader as moral agent.” The question of the leader’s personal moral autonomy and that of the employees who carry out the organization’s work will always be a concern. Recently, James Davidson Hunter observed, “Leadership is, in part a set of practices surrounding the legitimate use of gifts, resources, position, and therefore influence (relational power).” From a moral perspective, what is and what is not “legitimate use,” is what is being called into question. When CEOs, ministers, school superintendents, and government officials claim they didn’t know “what would happen” due to the actions of the organization, is this enough to get them off the hook? When they claim they don’t know who is responsible for the policies and actions of the organizations, then how is it that they retain their leadership positions? Maybe we should listen to H. Darrell Young who reasoned that leadership is more about influence than position and more about behaving ethically than giving orders that obligate others to our missions and strategies.

Moral Disembodiment

Leaders, it seems, have become disembodied through their organizational hierarchies and technologies and have lost their status as candidates for moral agents. As Wolgast remarked, “We have emptied ‘morality’ of meaning and thus live in a physical and moral geography of nowhere.” Yet, if leadership has become disembodied, what of society and culture? Is this the moral breakdown that the religious and political right have been clamoring about? Perhaps it is! Hunter says, “The fact is, our lives are constituted by multiple spheres of activity and relationships that define the leadership we exercise. In short, everyone exercises leadership to varying degrees, for we all exercise relative influence in the wide variety of contexts in which we live.” The inference in Hunter’s remarks is that as the potency of leadership varies, so does the degree of moral responsibility over the activities we pursue. The point is, no one can escape the moral responsibility for his or her actions. Speaking from the point of view of common sense, we intuitively know the difficulties with this view, of assigning moral responsibility in degrees from one person or another in a corporate or organizational environment. Thus, the leader as moral agent is an understanding of leadership that must either be clarified or dismissed as a reliable platform for assigning moral culpability within the corporate environment.

Within this conversation, the idea of “value,” especially “moral value,” needs some clarification for it, too, has a history that has changed both its usage and meaning. In the nineteenth century, Friedrich Nietzsche gave new meaning to the word “value.” Once thought of as connected to commodities, material things, and possessions (something of importance/value), Nietzsche attached “value” to “morality” and from that time, whenever value is mentioned, it has signified the moral beliefs of both persons and society. For Nietzsche, value was an intuitive and normative quality of all societies. This new meaning has, perhaps, itself changed as concomitant cultural shifts have made moral value just one among the many considerations being deliberated by corporate boards. Max Weber (1946), speaking from a sociological perspective, agreed that

belief and value are a part of the cultural milieu – the customs and mores of societies. He reinforced his analysis with ideas from cultural anthropology that considered value as both subjective (a feeling, intuition, non-rational supposition) and relative (particular to either individuals or more likely, to groups (societies) of individuals (Himmelfarb, 1994).

By the beginning of the 20th century, thinking about value qua morality had come full circle as the utilitarians posited the idea that moral value is purely instrumental and its usage pragmatic. It had no internal or absolute foundation, but served only the purposes of individuals, groups, institutions, corporations, and governments. In other words, moral value had become definitively oblique, tilting in the winds of cultural change and justifying behaviors once thought of as immoral or, at best, out of step with the traditional virtues of society. It has not been a large step from tying moral value to society and culture to tying it to organizational, governmental, and corporate entities. Value in general and moral value in particular thus became just another societal trend. Even virtue, once attached to a person's character, became increasingly relative. This trend also continued in economic theory where the classical view of "rational man" as the unit of analysis for economic behavior and marketplace exchange changed by the late twentieth century with the help of behavioral economics. Raphael Sassower (2010) has observed, "In the 21st century, predictable irrationality is thought of as a normal mode of behavior. Instead of revising neoclassical economics to fit contemporary economic crises, many recommend following Adam Smith's original concerns for the social setting of individual behavior and to treat economic crises with pragmatic flexibility rather than with dogmatic ideology."

Conclusion: Playing by the Rules

DeMaurice Smith, Executive Director of the NFL's Players' Association, is quoted as saying, "Systems work as long as people play by the rules." In following this maxim, it has been the focus of this paper to show that "leader" is a word that does not only define one person, but often includes groups of persons, variously influenced by the thinking of the group. Thus, boards of directors, trustees, church elders and deacons, and even governing bodies are leaders who, by definition, obligate others to follow and carry out their decisions. When viewed from this perspective, common sense informs us that the persons who sit on such governing boards and are embedded within decision-making bodies are both individually and collectively to be held accountable for their actions. They are indeed moral agents who should be held accountable to those moral pursuits necessary for democratic-capitalism to survive and flourish in a world beset with a "me-first" mentality.

In 2003, Hester provided the following six basic principles for guiding and assessing ethical and non-ethical leaders:

1. Caring for others is the first step toward ethical leadership.
2. Recognizing the dignity and worth of those with whom you work and who are in your sphere of influence.
3. Becoming a positive force for improving the human value within your workplace.
4. Leading from character and with confidence and self-respect, which are the necessary first steps for personal and organizational improvement.
5. Making creative change the norm by letting go of the command-control mentality and leading on the edge of creative possibility.

6. Committing oneself to open communication and dialogue by including others in planning, initiating, and decision making processes.

We complete our analysis with words from ethicist Alasdair MacIntyre (1984) who observed, “The bifurcation of the contemporary social world into a realm of the organizational in which ends are taken to be given and are not available for rational scrutiny and a realm of the personal in which judgment and debate about values are central factors, but in which no rational social resolution of issues is available, finds its internalization, its inner representation, in the relation of the individual self to the roles and *characters* of social life.” This bifurcation, MacIntyre reasons, is “an important clue to the central characteristics of modern societies and one which may enable us to avoid being deceived by their own internal political debates.” These debates range, in broad categories between individualism and collectivism, those promoting individual liberty on the one hand and those committed to planning and regulation on the other. In other words, the debate is between persons and bureaucratic organizations. It is our contention that these two opposing views are not our only choices for alternative modes of social life. The ethical life remains a viable alternative available to those who understand the importance of an ethical democracy designed in part to regulate our capitalistic impulses.

In broad strokes, our history has brought us to this crisis. Don R. Killian (2010) has proposed an answer to this dilemma. He says, “The relationship we have with one another matters. The relationship is the defining ethic in our interpersonal communication and it is our ethical responsibility to nurture the relationship. Interpersonal communication cannot lose sight of one’s relational responsibility to the other person or group of persons. Among other things, this means defining the ethical parameters that accompany the responsibility appropriate to a particular relationship.” Ronald C. Arnett (2006) frames a pragmatic case for dialogic civility as a key interpersonal metaphor for negotiating difference in the public domain of postmodern communicative interaction. He says, “We live in a time in which ethical standpoints that traditionally have undergirded discourse are in contrast, dispute, and disruption. Dialogic civility is an interpersonal metaphor grounded in the public domain and in a pragmatic commitment to keeping the conversation going in a time of narrative confusion and virtue fragmentation.”

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Don R. Killian earned the Bachelor of Arts Degree in History and Sociology from Davidson College in 1961. He received his Masters of Arts Degree in Sociology from Appalachian State University in 1965. In 1968 he was awarded a National Science Foundation Scholarship to study anthropology at the University of Colorado. Additional graduate study at the University of Georgia in sociology and anthropology from 1969-1971 and the University of North Carolina at Greensboro in small group sociology completed his graduate school studies. He participated in the Basic Instructional Skills Program as an instructor for the North Carolina Department of Community Colleges from 1982-1987. He just completed his forty-fifth year teaching sociology at Gaston College, Dallas, NC. He is co-author of the two volume *Cartoons for Thinking* published by Royal Fireworks Press.