

**"Ethical Leadership and
Creating Value for Stakeholders"**



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Value for Stakeholders**

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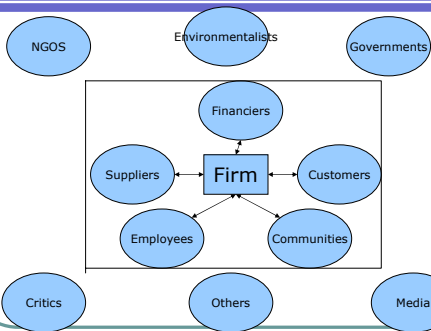
Today's Turbulent World

- Five trends that affect business and business schools
 - Globalization
 - Liberalization of markets and political institutions
 - Call for social responsibility, environmentalism and ethics
 - Information technology explosion
 - Destabilization of our ideas of management and leadership

The Bottom Line of Turbulent Times

- In times of great change we need time for reflection and we need a framework that helps us answer basic questions.
- The most important questions that businesses can ask today is:
 - What do we stand for? What is our purpose? What are our key values? Who has a stake in what we do?
- The framework in which to answer these questions forms a stable platform on which we can lead our organizations in turbulent times.
- In turbulent times we have to address stakeholders, values, and ethics.

Definitional and Instrumental Stakeholders



Enterprise Strategy: What Do You Stand For?

- Value Creation: How does the firm make others better off?
- Stakeholder Cooperation: What values and directives help build commitment to the firm?
- Stakeholder/Societal Expectations: Do our values and commitments obey social norms and laws?

The Managing for Stakeholders Mindset: Ten Principles

- Stakeholder interests go together over time.
- Stakeholders consist of real people with names and faces and children. People are complex.
- We need solutions to issues that satisfy multiple stakeholders simultaneously.
- We need intensive communication and dialogue with stakeholders—not just those who are friendly.

The Managing for Stakeholders Mindset: Ten Principles

- We need to have a philosophy of voluntarism, to manage stakeholder relationships ourselves rather than third parties such as governments.
- We need to generalize the marketing approach.
- Everything that we do serves stakeholders. We never trade off the interests of one versus the other continuously over time.
- We negotiate with primary and secondary stakeholders

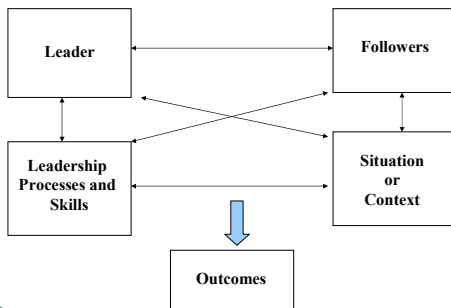
The Managing for Stakeholders Mindset: Ten Principles

- We constantly monitor and redesign processes to make them better serve our stakeholders.
- We act with purpose that fulfills our commitment to stakeholders. We act with aspiration towards fulfilling our dreams.

The Problem

- Leadership is ubiquitous.
- The instability of leadership theory and practice.
- The separation thesis applied to business leadership.
- Now is a good time to more closely examine our underlying ideas about leadership, in order to more closely connect leadership with ethics.

A Canonical Model



Connecting Leadership and Ethics

- At least three ways to make the connection in the literature and in practice:
 - The Amoral Leader
 - The Values Based Leader
 - Personal values-based
 - Community values-based
 - The Ethical Leader

The Amoral Leader

- Mere means oriented.
- Captures the idea of “leaders get people to do what they otherwise wouldn’t do”.
- Focuses on effectiveness & getting results.
- Difficult to sustain over time.

The Amoral Leader

- Often focuses on personal power and the position of leadership.
- Is unconcerned about choices of the followers.
- Values don’t count. Ethics don’t count. Just get the job done.
- Very high human costs to followers.

The Amoral Leader

- The separation thesis
- Ethics and leadership don’t mix
- Effective leadership, not ethical leadership
- The Hitler problem
- We could judge the “ethics” of the outcome, but that would be a matter external to leadership and leadership theory.

The Personal Values Leader

- May capture the charismatic nature of leadership.
- Leader's personal vision is relevant.
- Captures most of the current leadership theory.
- Difficult to avoid moral relativism.
- The Hitler problem.

The Personal Values Leader

- Ethics and leadership are connected by the personal values of the leader
- Can't judge those values from our point of view (relativism)
- Most of the popular literature is here: "leadership lessons from X"

The Social Values Leader

- Leads from shared values.
- Can be intense and charismatic.
- Appeals to followers' values and can be incredibly powerful.
- Not always open to criticism and reflection.
- In the extreme can become "cult-like".

The Ethical Leader

- Every arrow in the canonical model represents ethical issues and questions
- Ethics is pervasive
- Leadership and ethics are connected via principles, via character, via interpersonal conversation
- Leadership and ethics are connected via narrative or story, which is a complex construction related to and involving leaders and followers.

The Ethical Leader

- Values and principles open to conversation and criticism.
- Leadership by choice of the followers.
- Followers and society taken as important elements in guiding leader.
- Leader responsible for sound moral judgment.

The Ethical Leader

- Seeks to frame actions in ethical terms
- Understands that consequences matter
- Uses reasoning as well as appeal to rhetoric and emotion in exploring the moral consequences of her leadership
- Is committed to choice rather than coercion
- Takes the ethical nature of leadership most seriously

The Ethical Leader....

- Articulates purpose and values
- Embodies purpose and values
- Connects the basic business proposition to stakeholder support and societal legitimacy
- Brings knowledge of options to keep or improve the basic value proposition
- Keeps the values/ethics conversation alive
- Performs external checks on purpose and values
- Creates mechanisms of dissent

The Ethical Leader....

- Finds the best people and develops them
- Makes the tough calls
- Raises the bar constantly

The Bottom Line of Ethical Leadership:

- The ethical leader considers all elements at once in searching for an outcome that considers the values and ethics of the leader, followers, and society as a whole.
- The ethical leader is inclusive, and seeks to include others and to minimize "us" vs. "them".
- The ethical leader tries to get the right things done the right way, and fosters an open and honest "ethics/values" conversation in the organization.

Implications for Business Education

- Let's put the "business" back into "business schools".
- **Value creation and trade** is the central idea of business schools, not the academic disciplines.
- Stop all the medieval nonsense around what counts as "real research" or "real knowledge". Stop trying to emulate the real sciences.
- Creation of research traditions that take **value creation and trade (business)** seriously not as a second prize in the academic sweepstakes.

Implications for Business Education

- Much stronger connections with the practice of business.
- We need to focus on the almost lost art of "business judgment".
- The world is radically uncertain and human beings are complex and boundedly rational. B-schools need to reflect this reality.
- More prominence for entrepreneurship, leadership, and ethics....especially as these subjects are connected to strategy.

Implications for Business Education

- Commit to improving the practice and profession of management.
- Commit to producing leaders that create lasting value to society.
- Commit to Dewey's experimentalism.

Sources

- The ideas in this presentation originate in the following works:

R. Edward Freeman, Strategic Management: A Stakeholder Approach, Pitman Publishing, 1984.

- R. Edward Freeman, Robert Phillips, and Jeffrey Harrison, Managing for Stakeholders, forthcoming in 2004.

- Patricia Werhane and R. Edward Freeman, Ethical Leadership, forthcoming.
