

LEADERSHIP, ETHICS AND BUSINESS

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Notes for Social Entrepreneurship and Small Business Management Classes of Prof.

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Permit me to start with leadership, which is probably more important to a social enterprise or small business than to many components of countries, states or municipalities. I define a leader as a principled person, who wants to make a positive difference daily to his/her social enterprise/business and community.

It is easy to make mistakes. Has Fazel has written an interesting book describing ten errors leaders make. Here are three:

- Don't display a top-down attitude. "Because I am the boss" is not a successful strategy. Good leaders see themselves at the bottom of an inverted pyramid as servant leaders. Very often, the best ideas come from people at the very bottom of an organization's structure because the front-line workers have a better knowledge of those they serve.
- Don't put paperwork before people. For example, some managers object to interruptions, but the late and much-loved Henri Nouwen highlighted an older professor, who noted: "I have always been complaining that my work was continually interrupted, until I slowly discovered that my interruptions were my work." He also said, "People will never care how much you know until they know how much you care."
- Don't forget that we all need affirmation, praise, compliments. Good leaders understand the power of the personal touch of kindness. They show respect, provide recognition and spend time with their team.

Business/Political Leaders

Warren Buffett

Mr Buffett is certainly the quintessential business leader across the world today. Permit me to suggest a couple of key reasons:

- He is extremely knowledgeable and much of his investor apprenticeship was spent reading annual company reports during many years. When he says something about, for example, expensing stock options for management, he does it on the basis of much study and reflection. Certainly on this issue, his opponents usually look self-serving and foolish.

- He's a straight shooter and has principles. No-one to my knowledge has ever shown him to have acted unethically or dishonestly.

David E. Kilgour

My late father was CEO of Great-West Life, one of Canada's largest life companies, for 16 years, starting at the age of 41, and was long considered a leader in both the life industry and Canadian business in general.

He was highly-principled. In his presence, for example, you knew you'd better be your best self. If you exaggerated something in a statement, you'd sense his disapproval. If you borrowed \$10, you were expected to return it. At home and at the office, you were expected to do your best at all times. He and my mother often said, "There are no shades of honesty."

Perhaps I might add something here my mother said quite often. The world, she felt, was made up of essentially two kinds of persons—those who ducked out when the going got tough and those who did not: the suckers. "Woe betide", she used to say, "those aligning with the duckers".

Abraham Lincoln

First, from the preface of *Lincoln* by David Donald of Harvard University, published some years ago: Donald tells the reader that his work pays close attention to his subject's "unquenchable ambition, to his brain-numbing labor in his law practice, to his tempestuous married life, and to his repeated defeats...how often chance or accident played a determining role in shaping his life and emphasizes his enormous capacity for growth, which enabled one of the least experienced and most poorly prepared men ever elected to high office to become the greatest American President."

A quote from the book's introduction: Lincoln was "plain and complex, shrewd and transparent, tender and iron-willed...His success in dealing with the strong egos of the men in his cabinet suggests that in the hands of a truly great politician the qualities we generally associate with decency...--kindness, sensitivity, compassion, honesty and empathy—can also be impressive political resources."

Here is the Russian writer, Leo Tolstoy, on Lincoln in 1909:
 "The greatness of Napoleon, Caesar or Washington is only moonlight by the sun of Lincoln. His example is universal and will last a thousands of years...He was bigger than his country—bigger than all the Presidents together...and as a great character he will live as long as the world lives."

Chancellor Angela Merkel

In my view, Merkel is the best leader of a major country anywhere today. For example, as you know, she is taking for Germany 800,000 Syrian refugees. The rest of us look dismal in comparison—some much worse than others. Related perhaps to a degree here

is the importance of manufacturing and exports to Germany's economy and prosperity. Mrs. Merkel knows that she has an aging population and that hard-working newcomers will strengthen Germany.

Leadership in General

Trust

Sound principles give leaders the ability to maintain the trust, respect and support of stakeholders, whether voters, customers, fellow students, work colleagues, or whomever. We must demand that our leaders and officials demonstrate continuous responsibility.

Accountability/ transparency

The decline of some major organizations is often linked to a lack of accountability. Leaders should, first and foremost, uphold accountability and transparency. One effective way of doing this is by establishing and enforcing sound policies to protect whistleblowers. Far too often, 'information patriots' risk their careers and jobs in heroic efforts aimed at safeguarding the public interest or their employer.

Community

There are numerous examples of leadership and public service in business. Here's one: the late John Poole and his brother were the majority owners of Poole Construction Ltd. (now PCL Construction and evidently Canada's largest construction company). When John Poole retired as CEO of the company, the two of them sold their majority stake to the employees rather than accept the highest offer. In the ensuing three decades, John Poole and his wife gave tens of millions of dollars to a host of cultural, educational, social and environmental institutions.

Circles of competence

Countless organizations have been harmed when their leadership ventured into new areas without adequately understanding their circle of competence. On the other hand, at Southwest Airlines, for example, both management and employees know what the airline is good at and stick to it: Low-cost reliable air transportation. The implication for principled leadership is to have a core set of convictions. Without it, leaders yield to all kinds of pressures and achieve little of use to anyone.

In other words, leaders must ensure that their organizations remain steadfastly loyal to their basic philosophies, their *raison-d'être*. At the same time, leaders must also prepare their organizations to adjust and evolve in order to meet the challenges of a changing world. Good values and the pursuit of excellence have been tested over time as the "magic" combination for organizations.

Inclusive Cultures

In successful businesses, inclusiveness can take on the form of no special "perks" for senior management only. Nucor Corp., one of the most-admired U.S. organizations, is a good case study. Every employee is a full member of Nucor's team. The "no favourites" philosophy is demonstrated by giving employees the same amount of vacation days and

insurance coverage, and no one gets a company vehicle, aircraft or assigned parking spot. The freedom to try new ideas gives Nucor a distinct competitive edge: a creative, get-it-done workforce. As a result, Nucor has been honoured as one of “100 Best Corporate Citizens,” the “best in class”, “Best Big Companies” for environmental responsibility, corporate ethics, fairness toward employees, accountability for local community and many other criteria.

BUSINESS ETHICS AND VOLKSWAGEN

You all know that Volkswagen placed a software in their diesel vehicles to allow them to cheat emissions tests by the US government and possibly elsewhere. The EPA termed a “Defeat Device” software that could detect when the emission controls on its diesel engine-equipped cars were being tested, upon which it would activate them, but let them spew out pollutants when in ordinary use. The company ads said the diesel engines were ‘green’, but are now shown not have been so—at least as much as claimed by the manufacturer.

Consumers taken in by VW’s marketing campaign and seeming leadership on clean diesels probably find the company’s actions, especially given current environmental concerns, despicable. It is possible that this is just the tip of the iceberg and that other manufacturers might be implicated as well.

Prof Henry Mintzberg, professor of management studies at McGill University, recently wrote (September 22 *Globe and Mail*) that what happened at Volkswagen is not a scandal, but a syndrome. I agree with him so thoroughly that I’ll simply quote or paraphrase some key points in his short analysis and invite your comments:

- It’s not just Volkswagen. “If you buy a Chevrolet, watch out for the ignition. If a Toyota, duck if the airbag comes your way. There is a corruption pattern in Europe, the United States, Japan and most everywhere else that transcends the automobile industry. How about banking in the United States and Europe? How about politics, most everywhere? Now Brazil is receiving a lot of attention, while the utter corruption of U.S. politics – private money in public elections, a level of lobbying out of control – carries merrily along.”
- “A good deal of the corruption is criminal, and so can be prosecuted. So why don’t we prosecute corporate criminals, and not just corporate crimes? And why don’t we set the fines to indicate that corporate crime doesn’t pay? If you wish to steal, don’t grab somebody’s iPhone; the government will throw the book at you. Devise some financial manoeuvre – a little more clever than a Ponzi scheme – to defraud many people of much money. If you wish to commit manslaughter, don’t do it as the driver of a car; do it as the designer of the car. Executives and engineers at General Motors knew there were problems with those ignition switches, which led to multiple fatalities, yet they have walked off scot-free.”
- “Far more insidious, however, is the legal corruption, because it is so prevalent. Goldman Sachs allegedly manipulated the market for recycled aluminum so that it

could siphon off \$5-billion (U.S.) by moving ingots from one warehouse to another. What were they thinking? That's easy: \$5-billion. The company claimed to have broken no law. And that is precisely the problem: Our societies are being destroyed by this legal corruption.”?

- “Are you seeing the pattern? It's not a scandal; it's a syndrome. The Volkswagen affair is just a blatant case of an accelerating trend. Expect it to get worse, because we are living in a world where predatory capitalism is triumphing. In 1989, pundits declared that capitalism had triumphed. Wrong. Balance triumphed. The developed countries of the West were balanced back then”.
- “Think of the United States after the Second World War – higher levels of taxation, fairer distribution of wealth, generous welfare programs – and with all that, remarkable development, political and social as well as economic. The communist states of Eastern Europe collapsed because they were utterly out of balance, with so much power concentrated in their public sectors.”
- “It turns out the Berlin Wall fell on us: Predatory capitalism has been triumphing since 1989, throwing much of the world out of balance, on the side of private sectors. They are dominating government and much of society, with the consequences described above. This particular company was particularly dumb. But how many others are close behind, just a bit smarter to keep out of the spotlight? Remember the 1989 concept of ‘the end of history’, the widely accepted claim that human society had reached perfection, thanks to our relentless greed? Unless we get our act together, here it comes.”

Conclusion

More effective efforts are required from all leaders. Are we replacing rule of law, for example, with rule by lawyers as Niall Ferguson suggests?

More than ever, our nations, our world, demand that leaders set their eyes on interests greater than that of their own, or their political party or organization. More than ever, leaders need to keep their eyes on the long-term vision for a better world of human dignity, equality and rule of law for all.

Thank you.
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