2

Shades of Grey: Understanding Ethics

When I teach an ethics class at business schools, the first question I ask is, 'what does ethics mean to you? How would you define ethics?' I usually get nearly as many answers as there are people in the room. Most people aren't at all certain what ethics means, or have at best a partial definition. The most common answer is that ethics tells us the difference between right and wrong. That is indeed one of the things it is supposed to do, but that is only one facet of a complex subject.

In this chapter, I want to try and take us beyond notions of mere right and wrong and explore some of this complexity. The purpose is to try to demystify ethics and connect it more closely with how we live our everyday lives, and in particular, to emphasize the point that ethics is a matter of personal responsibility. Then in Chapter 3, I will go on to link ethics to leadership and attempt to show how ethics imposes responsibilities on leaders, but also opens opportunities.

What ethics is

The *Oxford English Dictionary* defines *ethics* as: 'relating to morals; treating of moral questions; morally correct, honourable … science of morals, moral

principles, rules of conduct, whole field of moral science.' If we turn to *morals*, we find: 'concerned with goodness or badness of character or disposition, or with the distinction between right and wrong; dealing with regulation of conduct, concerned with rules of morality, virtuous in general … founded on moral law, capable of moral action.'

Not terribly helpful, then. The only concrete thing to come out of these definitions is the idea of rules or codes. Ethics would seem to be set of principles that are set for us, and that we are expected to live by, like the codes of ethics that nearly every corporation inserts into its annual report or posts on its website.

The idea that ethics can be codified into a set of rules or principles to which people are expected to adhere has a long history.[1] The Mosaic Ten Commandments are an example of a moral code that also has the force of law; so too is the code of Hammurabi, promulgated in Babylon in the eighteenth century BC. The Chinese doctrine of Legalism, developed by the scholar Han Fei in the third century BC, is another example. The premise of these early codes of ethics and law was that the lawgivers were merely laying down what heaven had ordained.

Philosophers call this the *other-worldly* approach to ethics. In this view, morality is something that exists independently of human beings. We do not make the rules; they are imposed on us by God, or by natural law. That which is ethical is also the desired state of the universe. Some believed this could be achieved naturally. Laozi, the author of the *Daodejing*, argued that leaders should not interfere in the affairs of their followers; leave them alone and they will find the correct, ethical way by themselves.[2] The French Enlightenment philosopher Jean-Jacques Rousseau made similar arguments in the eighteenth century. Others, including Plato and Confucius, concluded that leaders have a responsibility to ensure their followers behave ethically.

The alternative view, the *this-worldly* approach, suggests that ethics are in fact social constructs. Correct behaviour is not ordained by some supernatural force; instead, we as societies choose how we wish to live and what behaviours will and will not be tolerated. This view of ethics also argues that different societies will adopt different codes of ethics depending on their needs; for example, what is agreed as ethical behaviour in China may not be considered ethical in Britain. It is also argued that ethical behaviour changes over time; thus, in the eighteenth century slavery was tolerated in Britain, whereas today it is illegal. This is known as *moral relativism*. In contrast, the other-worldly approach tends towards *moral absolutism*; what is wrong is always wrong, and what is right is always right.

It is hard to say that either approach is entirely right or wrong. People do construct codes of ethics to regulate their societies, as the examples above show. But a comparison of those codes, across the world and over time, show a remarkable similarity between them. Things like murder, lying, theft, cheating and financial fraud are nearly always considered wrong, whereas honesty, compassion and selflessness are nearly always considered virtues to be upheld. The question is, do people abide by these codes?

Slavery may have been legal in the eighteenth century, but that did not make it morally right. In Britain, the issue split the country down the middle with vehement arguments on both sides. Numerous attempts were made to break the slave trade and end slavery over the course of the century, long before William Wilberforce entered the scene. And while slavery may be illegal in Britain today, it still exists. The British government believes there may be 13,000 people living and working in slavery in Britain today, and other sources estimate there are as many as 30 million worldwide.[3] By comparison, around 12 million people were trafficked from Africa to the Americas between 1600 and the ending of the slave trade in the nineteenth century.[4] The law may prohibit slavery, but clearly many people still believe they have the right to enslave others.

TWO APPROACHES TO ETHICS

- *Other-worldly* approach: morality exists independently of humans. Moral values are universal and exist in a spirit-like realm. They are grounded in natural law.
- *This-worldly* approach: denies the spiritual status of moral values. Morals have evolved within human systems, and reflect the rules and norms of society.

This raises another important point; within any set of societal ethical norms, there will be individuals who reject those norms and insist on going their own way. Codes of ethics therefore suffer from a critical limitation. Unless they are also embedded in law, they can be very difficult to enforce; and even then, as the example of slavery shows, the task is still very difficult. In an organizational setting, merely promulgating a code of ethics and expecting everyone to abide by it will not work, even if there are penalties for unethical behaviour. People must *want* to behave ethically, for reasons of either self-interest – treat others as you would have them treat you – or conviction – I will behave ethically because I believe it is the correct thing to do – or both.

And that is tricky, for two reasons. First, how do you motivate people to behave ethically? And second, how do we decide what ethical behaviour is? The leaders can sit down and write a code of ethics, but they are then in effect imposing their own values and beliefs about what is ethical on other people, who may have quite different ideas of their own. Is that right? Is it ethical to impose a set of ethical standards on people against their will? And if we try to get a consensus as to what is ethical, what happens? We find, as I described above, that people have so many different views as to what constitutes ethical behaviour that getting agreement can be next to impossible. The following case study, which I have used when teaching ethics for many years, illustrates the point. (I should add that the details of

this case have been very heavily fictionalized, as descendants of some of the people involved are still alive.)

Blackley shipyard: What would you do?

The year is 1931. The place is the small town of Blackley in the northeast of England, population *c.* 10,000. The main industry in Blackley is a shipyard which builds and repairs ships, and employs around 800 people directly. The rest of the town is entirely dependent economically on the shipyard; the yard's employees spend money in the town's pubs and cafes and laundries and markets, enabling these other business to survive.

The shipyard had been founded in the late nineteenth century and had prospered through the First World War, building warships for the Royal Navy. The post-war recession hit the yard very hard, and in 1922 it was nearly forced to close. This caused panic in the town, for it was recognized that without the shipyard, the town itself was not economically viable. There was little in the way of social safety net in those days, and if the yard closed the population of the town would have to disperse to find work elsewhere. A thriving little community would be broken up, and Blackley would become a ghost town.

Into the breach stepped our hero, Arthur Lawrence, a successful stockbroker from London then in his late 20s. He had fond memories of the area, where he had holidayed with his parents and family for many years, and had a great affection for Blackley. Lawrence had done very well in the markets and had money to spend. A well-educated, honourable young man, he was also restless and looking for something to spend his money on, something that would do good in the world. In Blackley he saw his chance. He bought the shipyard, invested his own fortune in it, and built the yard up again, this time making cargo vessels for the merchant marine. Through the 1920s, Blackley prospered.

Then came the Wall Street crash of 1929 and the Great Depression, and the world market for shipping disappeared almost overnight. Orders for new ships were cancelled. For a time the yard survived by doing repair and refit work, but these jobs too began to dry up. By the end of 1931, it was clear that the writing was on the wall. Lawrence and his fellow directors calculated that they had enough money to pay the workforce until the end of February 1932. After that, the money would run out. With no bank willing to lend them funds, they would have no choice but to close the shipyard and lay off the entire workforce, with disastrous consequences for Blackley.

Then, at the eleventh hour, a message arrived. The Ministry of Marine in Romania was looking bids to build two small tankers to service the country's burgeoning oil industry. Building these tankers would keep the yard in work for another year, during which time the economy might improve and the demand for shipping revive. There was one problem: the Romanian government was known to be endemically corrupt, but Lawrence was willing to take the risk. He jumped at the offer like a drowning man seizing a lifebelt, and took the next train to Bucharest. On arrival, he was received warmly by officials of the ministry and made welcome. To his surprise, he discovered that he was the only bidder for the contract.

Everything went smoothly. The Romanian negotiators were happy to accept whatever terms Lawrence proposed. At the end of the second day it was announced that the contracts would be signed at the Ministry of Marine at noon the following day.

At ten o'clock that night, two officials from the Ministry of Marine knocked at Lawrence's hotel room door. Their message was simple and blunt. Unless Lawrence provided a bribe of £20,000, half to the Minister of Marine and half to themselves, before noon tomorrow, the contract would not be signed. There would be no deal. A telegraph line would be held open for Lawrence to contact his bank and arrange a wire transfer, but he would not be permitted to make a telephone call or contact his associates back in Blackley. He had only a few hours, on his own, to decide.

The choice was grim. He could pay the bribe, and hope the officials kept their word and the contract would be signed. If he did so, the shipyard would have work and the business and the town would survive. But he himself would have broken the law; then as now, British law forbade the payment of bribes overseas. If he was caught, he would go to prison, and be banned from ever holding a company directorship again. His career would be wrecked. And he himself would have to live with the knowledge that he had broken the law. Finally, he would have been contributing to and reinforcing the culture of corruption in Romania, where a small number of officials were enriching themselves while the mass of the population sank steadily into poverty.

Alternatively, Lawrence could refuse to the pay the bribe. The deal would collapse, and he would return to Blackley empty-handed and tell his directors and his workforce that it was all over. In two months, they would be unemployed and the community would disappear. He would in effect have sacrificed the shipyard and the town to save his honour.

What was the ethically correct thing to do in these circumstances? What would you do? Think about it, and decide what you would do. (You can find out what actually happened at the end of this chapter.)

Individual ethics

Responses to this case when I teach it are absolutely fascinating. People become very emotionally involved, and I have seen students burst into tears. The last time I taught this case to MBA students, after a vigorous debate, around 80 per cent of the class said they would refuse to pay, with the remainder reluctantly in favour. The previous year, with a cohort of similar size and from very similar backgrounds, the result had been the exact opposite, with around 80 per cent in favour of paying the bribe.

Around the same time I also taught this case to a group of officers in the British armed forces. I had expected them to come down on the side of paying – the culture of the armed forces emphasizes self-sacrifice and being willing to risk yourself to save others – but to my surprise, this group were split exactly down the middle between payers and non-payers.

The reason this case arouses such strong emotions and reactions is that it confounds our notion of what ethics is. There is no black and white here. No matter which decision Lawrence makes, it will be wrong. And yet, on another level, it will also be right. In each case, someone will benefit, and someone will suffer. And each individual sees the problem in a different light, and makes their own choice.

To get some perspective on this case, and on the issue of what it means to be ethical generally, let us look at some of the most important theories of ethics. We shall look at four in turn: deontology, consequentialism, pragmatism and virtue ethics.

Deontology: The difference between right and wrong

Deontology is sometimes described as the ethics of duty. The word comes from the Greek root *deon*, meaning duty or more literally, 'one must'. The most prominent exponent of deontology was the German Enlightenment scholar and writer Immanuel Kant, but versions of deontology can be found in Indian and Chinese thought too; once again, the same ethical principles crop up time and time again in most cultures around the world.

Deontology is about right and wrong, or rather, about Right and Wrong. It tends towards moral absolutism; that is, some things are always Right and something are always Wrong, no matter what the circumstances.[5] Theft, for example, is never justified, not even if one is stealing food to prevent one's children from starvation.

Kant's famous *categorical imperative* stated that we should always act as if the principles behind our actions could be regarded as a universal law. Kant also argued that there are absolute constraints on our actions, the breaking of which is never justified.[6] Nor does deontology take any account of agency. Who you are makes no difference; what is wrong is wrong, whether you are the CEO of a billion-pound company, or the window cleaner.

Kant was also uninterested in the consequences of actions. He was suspicious of terms such as 'good' and 'bad', regarding them as relativistic; nothing in the world, he declared, could be declared beyond doubt to be good. Although the categorical imperative also states that we should treat people not just as a means to an end but also as an end in their own right, it is clear that he regards the outcome of any morally right action as justified. All we need do is obey the natural law, and the correct outcome will be achieved.

The same principle can be found in the *Bhagavad Gita*, the famous Indian text that forms part of a much larger epic, the *Mahabharata*.[7] The *Bhagavad Gita* is largely a dialogue between the warrior king Arjuna and his chariot driver, actually the god Krishna in disguise. Arjuna has been commanded to prosecute a war against a group of rebels, but some of the rebels are also friends and members of his own family. He is deeply unhappy about the prospect of fighting and killing them. At this point Krishna reminds him of his duty. He is the king; his own feelings are immaterial. The fact that his friends and family will die does not matter. He must fight because it is his duty to do so according to natural law.

DEONTOLOGY

- Rules based
- Focus on right and wrong actions
- Consequences of actions are not important

The most extreme example of deontology comes from the Chinese school of Legalism, and I mention it here because it shows how any theory, when taken to its logical extreme, becomes problematic.[8] The brainchild of the statesman and philosopher Han Fei, Legalism is built around two principles: *fa*, the standards to which people must conform and rules with which they must comply; and *shi*, or power. The exercise of power is in the hands of the leader, and his duty is quite simple; to reward those who comply with *fa*, and to punish those who do not.

Han Fei was adamant that the leader did not make the rules; the standards were universal and absolutist ones, embedded in natural law. *Fa* is absolute and universal; *fa* has, indeed, a long, long way to run. The leader is there to see the rules were obeyed, combining the roles of judge and enforcer. No leeway was given to the leader in interpreting the rules, which had to be observed exactly, regardless of consequences.

> Once in the past Marquis Zhao of Han got drunk and fell asleep. The keeper of the royal hat, seeing that the marquis was cold, laid a robe over him. When the marquis awoke, he was pleased and asked his attendants, 'Who covered me with a robe?' 'The keeper of the hat', they replied. The marquis thereupon punished both the keeper of the royal hat and the keeper of the royal robe. He punished the keeper of the robe for failing to do his duty, and the keeper of the hat for overstepping his office. It was not that he did not dislike the cold, but he considered the trespass of one official upon the duties of another to be a greater danger than the cold.[9]

In another instance, the king was receiving visitors when a man ran into the audience chamber and tried to assassinate him. One of the royal guards stepped forward and killed the man before he could strike. The king summoned the guard and rewarded him for saving his life; and then ordered him to be executed for leaving his post without permission.

These two anecdotes highlight some of the problems with deontology. First, if we consider right and wrong to be the only principles that matter, we run

the risk of creating injustice in the name of righteousness.[10] Simple humanity would suggest that leaders should be given some leeway in interpreting the rules. Yet, the moment we give that leeway, the whole edifice begins to totter. Right and wrong are no longer absolutes with their roots in natural law, but subjective interpretations. And who then determines what is right, and what is wrong? On what criteria do they do so? And is it ethical for them to apply those standards to other people, who have not had a say in what those standards should be?

In his book *A Theory of Justice*, the American philosopher John Rawls attempted to solve some of the problems with deontology by bringing in safeguards for the less powerful. Rawls argued that any society – or organization – should operate on two principles: first, that every person has a right to liberty, but their freedom should never be allowed to impinge on the liberty of others; and second, that the least advantaged members of society should be protected as far as possible from social and economic inequalities.[11] This is a useful reminder that right and wrong have different meanings depending on one's position in society.

From a deontological perspective, the duty of Arthur Lawrence, the shipyard owner discussed above, is quite clear. The law states that bribery is wrong, and that law is grounded in a principle of natural law, namely, that no one should be allowed to gain an unfair advantage over another. Lawrence should not think about the consequences of his actions; he should obey the law, return home and, if necessary, close the shipyard and make his workers redundant. There will be suffering and hardship, but it will not be his fault. He has done the right thing.

But, Kant also reminds us in his categorical imperative that we should treat other people as ends, not means. And Rawls says that we should not ignore the principle of justice, and should treat others fairly. From this perspective, is abandoning the shipyard and workers and their families the right thing? Does not the leader have a duty to his or her followers? If so, could paying the bribe be considered as morally right, in order to fulfil that duty?

And, finally, sitting alone in a hotel room in the still watches of the night, can you contemplate going home empty-handed and telling your people that their jobs and lives are about to be destroyed?

Consequentialism: The difference between good and bad

In contrast to deontology, the ethics of Right and Wrong, consequentialism is the ethics of Good and Bad. What matters is not the action itself, but its consequences. The correctness of our actions is measured according to the amount of good that results, and how widely that good is spread. One of the first consequentialists was Confucius who, although insisting on the need for rules and structure in society, focused primarily on the outcomes that these rules would generate in terms of greater wealth and happiness.[12]

In the eighteenth century the English economist Jeremy Bentham argued that the principal drivers of human behaviour were pain and pleasure, and that the best interests of the people lay in maximizing pleasure and reducing pain. Bentham recognized the impossibility of making everyone happy all the time; therefore, our goal should be to seek *the greatest good for the greatest number*, a principle that became known as utilitarianism, a kind of subset of consequentialism.[13] John Stuart Mill later defined utilitarianism as 'general happiness', and the elimination of anything that does not produce happiness.

Mill was an absolutist who argued that nothing other than total happiness is desirable. He criticized utilitarianism for its implicit assumption that not everyone's needs can be satisfied and some people will be left behind, and he believed that deliberately consigning some people, no matter how few, to unhappiness was immoral. Most consequentialists and utilitarians, however, tend to be relativist in their outlook. What is considered Good will vary

between societies depending on how they are structured and what their values are, and will also evolve over time as society itself changes.

Pure consequentialism focuses solely on the outcome. The actions do not matter; what matters is the result. Machiavelli's doctrine that 'the end justifies the means' is a famous example. Almost at once, though, problems start to arise. If we take this doctrine to its logical extreme, then cheating, theft and murder can be justified so long as we can point to desirable outcome. It is alright to steal money, so long as we give it all away to charity. It is okay to invade other countries if our aim is to overthrow dictators and replace them with democratic governments. It is acceptable to break the law so long as we are doing something that will result in good for others.

And, sometimes it is. It is not acceptable – or so I finally decided – to break the speed limit in order to be on time for an ethics committee meeting, but suppose I had been instead rushing a badly injured person to hospital? Had I saved this person's life by ensuring they received timely medical help, would breaking the law have been justified?

At the heart of the matter is the question of how Good and Bad are determined. Do we always know how to recognize them when they appear? Further, who decides what is Good and Bad? This is one of the things that bothered John Stuart Mill. What right does anyone have to determine what is good or bad for other people? What right do we have to decide what constitutes happiness – or, for that matter, pain – for anyone but ourselves?

CONSEQUENTIALISM

- Consequences of actions are more important than the actions themselves
- Judgement of Good versus Bad
- Greatest good for the greatest number (utilitarianism)
- Ends justify the means

For centuries, small elites of rich white heterosexual males dictated to the rest of the population what was considered good according to their own values and beliefs. Women were, and in some countries still are, banned from a wide range of activities – voting, driving cars, owning property, participating in sport, even travelling on their own – that men were able to freely enjoy, on the grounds that doing these things was not good for them. Homosexuality was banned because it was considered to be a Bad Thing. Slavery was tolerated because it was considered to be economically a Good Thing.

Good and Bad are highly subjective terms, and letting other people decide what is good and bad for us is always risky. People who make these judgements always have an agenda, and we need to know what that agenda is before deciding whether to heed their rules. My Exeter colleague Jennifer Board has written about the paradox of ethics, arguing that in some cases, in order to reform a corrupt organization, it may be necessary to turn a blind eye to some examples of unethical behaviour in order to gain allies and establish a position. Once we have the power to take action, *then* we start cracking down. But we have to have that power in the first place, and achieving it often requires ethical compromises.[14]

To go back to the shipyard case, at first glance it appears obvious that, in order to achieve an outcome that is Good for his workers, Lawrence should pay the bribe. The yard will get the contract, the workers will build the ships and be paid, and the town will stay alive.

However, the consequences for Lawrence himself may not be quite so positive. If it is discovered that he has paid a bribe, his career will be wrecked and he will go to prison. Even if not, he will have to live with the consequences of having committed an illegal act; he will know he did something wrong, even if no one else does. And there is also the impact in Romania itself. By paying the bribe, Lawrence will be contributing to propping up a corrupt and oppressive government that keeps its people trapped in poverty while officials enrich themselves. The shipyard workers will keep their jobs but at the expense of the people of Romania. Is that Good?

Pragmatism: The moral ecology

Right and Wrong, Good and Bad; both give us food for thought when considering what is or is not ethical, but if taken to their extremes, both sets of principles can easily lead us down a moral rabbit hole. Pragmatism, which has its roots in the early twentieth-century thought of John Dewey and William James, argues that trying to separate the means from the end is morally flawed.[15] Both the ends we seek and the means we use to get there have ethical consequences.

Pragmatists argue that rather than adhering to fixed codes of right and wrong, good and bad, and trying to apply them to every situation we encounter, we need to consider each ethical situation on its own merits. It is accepted that we can never know with certainty what the consequences of our actions will be, and therefore a certain amount of trust and faith are required. We make the decisions we *believe* will have the best possible outcomes, knowing that the possibility exists that we are wrong.

This puts pragmatism squarely into the relativist camp; we take each situation as it comes, knowing that different factors will be in play and what is right in one situation may well be wrong in another. John Dewey argued that all ethical behaviour was in effect a kind of practical experiment. In every situation, we formulate a hypothesis about the right thing to do, test it, and, then if it passes the test, put it into practice.

An important concept in pragmatic theory is the notion of *moral ecology*. Whereas deontology and consequentialism use a kind of 'one best way' approach, suggesting that there is only one desirable outcome, moral ecology suggests that many alternatives may be possible. Rather than proceeding down a narrow, tightly defined path towards the Right or the Good, we can evaluate various alternatives that might give us different results.[16] The moral ecology view also argues that the presence of multiple alternatives offers us a better chance of coming to the right ethical decision. Only when decision making is

constrained by lack of alternatives do we run the risk of falling into unethical behaviour.

A pragmatic approach to ethics offers us choice; but can too much choice be dangerous? Without greater principles like Right and Good to guide us, how do we determine what is ethical? Pragmatism seems to suggest that we know already what we should do, and it is down to us to find the best way of doing it, the way that will yield the outcome we most desire, out of a choice of many. That assumes, however, that we have sufficient judgement and wisdom to make ethical decisions. And that wisdom, as another colleague from Exeter, Ajit Nayak, points out in his highly perceptive article 'Wisdom and the Tragic Question' in the *Journal of Business Ethics*, is often sadly lacking.[17]

In part, this is because the positivist paradigm has largely killed off any reliance by leaders on the irrational, the emotional and the instinctive, and has left us with the 'you can't manage what you can't measure' approach. Ajit's view is that this leaves managers emotionally crippled and therefore less able to make ethical decisions. Emotion, he declares, is central to wisdom. And it is through wisdom that we see the path before us clearly. A wise leader is one who is not afraid to go against norms and conventions. In a passage that could have come straight from a textbook on pragmatic ethics, Ajit declares that 'wisdom is about recognizing that doing the ethically responsible thing can sometimes lead to acting in ways that violate different ethical norms and values'.[18] In other words, being ethical is far more than just following rules. It requires us to step up and take personal responsibility for our decision and actions.

PRAGMATISM

- Ends and means cannot be separated
- No hard and fast rules
- Each situation is different
- Experimental approach

Using the pragmatic approach on its own is difficult. It requires us to have the necessary wisdom and experience to see the way forward, and the courage to make decisions knowing we might be wrong. Go back and read the Blackley shipyard case again, and then consider what you would do without any reference to principles of good or bad, right or wrong. What would you do?

But for those who have the wisdom and the courage, pragmatism also has much to offer. In the shipyard case, Arthur Lawrence's options would appear to be limited; he can pay the bribe, or not. This was of course part of the plan laid by the corrupt officials. A common tactic in such cases is to isolate the person who has been targeted (alone in Bucharest), cut them off from their supporters (no telegram or telephone available), put them under time pressure (money must be in the bank by noon tomorrow) and then give them a simple either/or choice (pay or walk away).

By moving away from narrow definitions of Right or Good, pragmatic ethics – in theory at least – offers the possibility of opening up other options. Think about the case again. Can other alternatives to simple pay/don't pay be developed?

Virtue ethics: What kind of person do you want to be?

The idea of personal responsibility is highlighted even more strongly in the concept of virtue ethics, usually associated with the work of the ancient Greek philosopher Aristotle, especially his *Nicomachean Ethics*, although very similar ideas can also be found in the teaching of Confucius, especially on the cultivation of virtue.[19] This school of thinking is usually known as virtue ethics.

Aristotle argued that behaving ethically is a matter of *deliberate choice*. All decisions have an ethical component, and therefore we must ensure that we make decisions in a rational way, considering all the factors and thinking the matter through before taking action. Acting on impulse means simply giving

way to desire, and we are likely to fall prey to selfishness and other vices. Deliberate choice, on the other hand, requires wisdom and experience, what Aristotle calls *phronesis*, or practical wisdom. It also requires possession of as many facts as possible so that the right decision can be made.

However, even if we make decisions as a deliberate choice, how can we be sure that these decisions are ethical and responsible? The answer, says Aristotle, lies in the cultivation of virtue. He lists a number of virtues that a wise person should possess: courage, moderation, generosity, honour, gentleness, 'friendliness', which I would define instead as sympathy for others, truthfulness and a sense of shame (the latter, says Aristotle, is not a virtue in itself but is a desirable character trait).

Virtues guide and shape our mindset. If we possess these virtues, and refer to them when making decisions, then those decisions stand a far higher chance of being ethically correct because we will be starting out with a predisposition to act in a virtuous manner. In virtue ethics, behaviour and action can be deceiving; what is most important is motive. If a person does not cheat or steal, does that make them honest? Not necessarily; they may not simply have had the opportunity, or be willing to take the risk for fear of being caught. Just because they have not cheated or stolen before does not mean they won't do so at some point in the future.

No, says Aristotle; a truly honest person is someone who will never think of cheating or stealing because they know it is inherently wrong. They do not

VIRTUE ETHICS

Deliberate choice
- Collect the facts, then decide
- Practical wisdom (*phronesis*)
- Cultivation of virtue

make a choice about whether to steal or not to steal. The idea of stealing never crosses their mind in the first place.

To sum up, then, in virtue ethics we pause, consider, collect all the facts and then analyse them with reference to our virtues. Of course, this assumes we all have those virtues in the first place, and a cynic might well argue that here is where the theory falls over. People, it is argued, are inherently selfish, greedy and lazy; when making decisions, they will look out for themselves first and the rest of the world can go hang. And, indeed, some people do think like that.

However, there is increasingly powerful evidence that most of us don't, and that the virtues Aristotle talked about may in fact be hard-wired into our brains. In *Kindness in Leadership*, for example, Gay Haskins and her colleagues talk about the notion of our minds being naturally disposed towards kind acts and compassion.[20] Similarly, Paul Zak has written extensively on the part played by oxytocin, a hormone that acts as a neurotransmitter in the brain.[21] Put very briefly, if we are in situations where we are comfortable, the brain releases more oxytocin which produces a feeling of pleasure and happiness. Eating chocolate, having sex and using mobile phones are among the activities which have been identified with the release of oxytocin. On the other hand, if we are uncomfortable, oxytocin emission is reduced, and we begin to feel unhappy or even fearful.

Zak's work has also found that when we feel we can trust the people around us, oxytocin levels increase and there is a corresponding increase in happiness; conversely, if we are suspicious or do not know who we can trust, oxytocin decreases and unhappiness sets in. Studies of primate behaviour among chimpanzees have shown the animals will often exhibit symptoms of trust towards others in hopes of getting a trust response in turn.[22] Humans behave in very much the same way. We trust others in hopes that they will trust us in turn, and the overall increase in trust makes us happy.

It is possible, then, that we do not choose to be virtuous. Confucius thought that virtues were inculcated in the young through family life and education,

but it may also be that we are born with a predisposition to virtue because our subconscious mind knows that the cultivation of virtue will make us happy. This is pretty much the argument that is made in the teachings of the Buddha; that virtue is its own reward. Very similar views can be found in the writings of Nietzsche, who rejected codes of morality ('there is something immoral about morality') and the existentialist Jean-Paul Sartre, who argued that objective views of issues like ethics are simply not possible, and that we must instead rely on ourselves; only we can decide what is truly ethical.

If virtue is not a deliberate choice, does that mean that corruption and deceit are? Do some of us deliberately choose to go over to the dark side? The jury is still out on this; it would seem that some people do make a choice, but others may be driven to destruction by imbalances in the chemical composition of their brains. Not everyone finds it possible to be virtuous.

One more time, go back and look at the Blackley shipyard case. Think rationally and clearly about the facts you have to hand (they're all you are going to get) and then ask yourself what a virtuous person would do. What does each of the virtues, kindness, compassion, generosity and so on require of us? What is the virtuous way forward?

Moral responsibility

Having looked at each of the four schools of thought, there is a temptation to try and pick the one that is 'best' and go with that. But, as we have seen, each approach to ethics has its strengths and its weaknesses; and also, it is not entirely possible to escape the demands that each makes of us. The conclusion must be that all four are necessary, and that ethical thinking should blend elements from each.

Definitions of right and wrong are subjective and potentially constrictive, but they are also necessary. 'I want my people to drive fast', a financial services

Table 1 *Four theories of ethics compared*

	Deontology	Consequentialism	Pragmatism	Virtue ethics
Guiding principle	Right or Wrong; outcomes do not matter	Good or Bad; greatest good for the greatest number	Moral ecology; more than one solution possible	Decisions made based on wisdom and virtue
Responsibility				
Strengths Weaknesses	Rules give strong reference point. Strict interpretation of the rules can lead to injustice.	Focus on outcomes frees us from restrictions of rules. Focus on outcomes could lead us to cheat in order to get the right outcome.	Practical, emphasizes needs of given situation. Lack of guidelines can be difficult to know what correct behaviour is.	Focus on self rather than reliance on rules formulated by others. Requires people with requisite amount of virtue and wisdom.

executive once told me, 'but I also want them to drive safely.' Setting out rules is important, if only to give people an idea of where the boundaries lie. That is why codes of conduct and codes of ethics can be useful. Anyone who is tempted to transgress will know what the consequences are.

Good and bad are again subjective moral judgements, but we cannot escape them. The purpose of business, after all, is to create value, and value is created as a consequence of our actions and decisions. As business leaders, we are all consequentialists to a degree. At the same time, we should also be pragmatists. We do need to approach each situation on its own merits, and make decisions based on what will be best at the time. And while we might scoff at the idea of 'virtue' as being old-fashioned and outdated, it looks increasingly clear that the principles of virtue, such as kindness and compassion, may well be ingrained in our psyche, part of the mysterious electrochemical combination of our brain. Being virtuous is natural to most of us.

The Tata Group, which takes ethics extremely seriously, uses all four of the perspectives described above to build and strengthen its own ethical position. Tata has a deontological code of ethics, a document that every member of the organization reads and signs during their induction process. Tata refers constantly back to this document, and operates a zero-tolerance policy; with few exceptions, anyone who violates the code of ethics is ejected forthwith. But Tata also emphasizes consequences. It puts great store by the good it does in the countries and communities where it operates. One Tata subsidiary, the watchmaker Titan, uses a measure it calls 'lives transformed' to show the effect of its social responsibility policies.

There is also a strong element of pragmatism. Rather than having fixed recipes for moral and ethical behaviour and actions, Tata encourages its employees to 'think ethically' so they will know what to do in any given situation. One young accountant, approached by two customs officers for a bribe, did not hesitate; he immediately telephoned the national police anti-corruption unit and helped the officers set up a sting operation, with the result that a few weeks later the corrupt officers were arrested. The first his boss knew of it was when the local papers telephoned him asking for comment. As for virtue ethics, Tata refers constantly back to its own history and the principles of its founders, and looks to them for inspiration and guidance to help them stay on the right path. The result is an organization with one of the highest ethical profiles in the world, and also an extremely powerful and enduring brand.[23]

The most powerful single lesson to take away from the Tata example, and the one common thread running across all four schools of thought, is *moral responsibility*. Being ethical is down to us. We cannot pass responsibility to others. Nor can we use codes of conduct as a crutch. The idea that 'there's no law against it, so let's go ahead', or 'if the code of conduct doesn't forbid it, it must be okay', is nonsense. The examples of ethical failure we saw in Chapter 1 did not always involve legal violations (though in some case they clearly did).

Moral responsibility means assessing each decision, each action and looking at its moral consequences. That is what we must do if we are to put ethics at the heart of our business models.

So what?

Why does all this matter? Who cares whether there are four schools of thinking about ethics, or forty? (Actually, there probably are closer to forty. I picked out just a few of the most important and commonly used ones. Be grateful.) Why is any of this important to modern business leaders?

There are two particular points we need to think about before we move on to a discussion of leadership. The first, which will come as no surprise, is that ethics is a lot more complicated than a lot of us think. Black-and-white situations where ethical decisions are easy to make are, in fact, fairly rare. Much more common are the dilemmas and paradoxes referred to above, like the Blackley shipyard case or the foreign aid case, where there is no obvious right or wrong. Often, any given solution to the problem will simultaneously be both right *and* wrong. And that, of course, presents problems for our ethical leader. How do you get around these problems?

The answer in most cases is that you don't. As we pointed out in *Leadership Paradoxes*, ethical paradoxes are not problems that can be solved.[24] They simply exist, and we have to accept them as part of the landscape. Some ethical problems will always be with us, and will never go away. I make this point to encourage you to move away from the idea that 'ethical leadership' is simply a path we can follow or an exercise we can conduct to make ourselves 'more ethical'. There is not. Being ethical requires us to understand the different dimensions described in this chapter, and learn to think in all of them.

ETHICAL THINKING

- In a given situation, what do you believe constitutes right and wrong action? What do the rules say is permitted/not permitted? What actions would you yourself describe as moral/immoral?
- In the same situation, what do you believe constitutes a good or bad outcome? Who will be affected by your decisions? What will be the positive impact on them? What will be the negative?
- What alternatives exist? If there are no immediately obvious alternatives, can you change the parameters of the situation in order to develop some?
- What does your heart tell you to do? What do you believe, instinctively, you ought to do? Set aside your personal wishes and desires; they do not matter. What, in a perfect world, should you do?

Second, there is the issue of moral responsibility. To put ethics at the heart of the business model, we first have to put it at the heart of our own thinking. Every decision has ethical consequences, and every time we make a decision we need to consider what those consequences would be; whether it is instinctively through innate wisdom, as Ajit Nayak would like, or through deliberate choice, as Aristotle advises, or more probably through a combination of both. The most important lesson of this chapter, then, is focus on yourself. Learn where your own moral compass is, study your own virtues, know what you believe to be ethical and where your red lines are.

Marianne Jennings, professor of financial ethics at Arizona State University, asks her students each year what their own ethical platform is. What is the line beyond which they would not go? She urges them to think about this, and keep thinking about it over and over again as their careers progress. This is part of knowing your own moral compass. If you are firm in your moral convictions, then no threat or demand for blackmail should be able to shake you. This is one of the reasons why firms like management consultants

McKinsey & Company put so much emphasis on ethics; so that everyone is aware of the ethical position, and knows what to do in any given situation. McKinsey reminds its employees constantly of what its core values are, but no one stands over you and checks to make sure you are being ethical. The onus is on you, the consultant, to be ethical; and if you fail to meet the firm's high standards, woe betide you.

The Japanese strategy guru Kenichi Ohmae urged leaders to think about strategy all the time. Don't sit down once a year and conduct a strategic planning exercise, he said; make strategy part of your life. Thinking about strategy is like exercising a muscle; the more you exercise, the stronger the muscle will grow.[25] I would argue that the same is true of ethics. The more you think about ethical principles, the easier it becomes to incorporating them into your everyday decision making. Do this often enough, and after a while you will be thinking ethically without even being aware of it. It will be as natural as breathing.

BLACKLEY SHIPYARD: WHAT HAPPENED?

After a sleepless night in his hotel room, the following morning Lawrence decided to pay the bribe. He wired his bank in the UK, and the money was transferred to Bucharest. Soon after, he met the Minister of Marine and his officials, and contract was signed as promised. Lawrence returned to Blackley and gave the good news to his fellow directors and the workforce, who were overjoyed. However, Lawrence did not tell anyone about the bribe. His reasoning was that, if he was caught, he would take sole responsibility and no one else at the firm would suffer.

Six months later, the British embassy in Romania picked up a rumour that a British shipbuilding firm had paid a bribe to the Minister of Marine in order to secure a contract, and reported this back to London. Soon after, two detectives from Scotland Yard arrived in Blackley to interview Lawrence. When asked if he had paid a bribe, Lawrence admitted it at once, emphasizing that this was his own decision and no one else was involved. He resigned as managing director of the firm and sold his stake

in the business to the other directors, and was arrested and placed on trial. As a result of his guilty plea and general good conduct, his sentence was relatively light: two years in prison. He was also barred from being a company director for life. His career was effectively ruined.

Blackley shipyard built the two tankers and delivered them on schedule. By the time the work was completed, the shipping market was strengthening once more, and new orders began to come in. A few years later the expansion of the Royal Navy provided more work still. Blackley continued to prosper after the war until it was nationalized in 1977 and folded into British Shipbuilders.

According to his own testimony, Lawrence remained convinced he had done the right thing. His view was he was responsible for the firm, its people and the town, and that as their leader, it was his role to sacrifice himself for them if need be. He knew he was breaking the law, but considered himself justified. But questions remain? Did he consider the impact his actions would have in Romania? How hard did he try to develop other alternatives? And did he really have no regrets? Was he content that the rest of the world should regard him as a corrupt individual and convicted criminal? Did that really leave no scars?