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Responsible Leadership - The Ethic of Right Behavior (London)

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Recommended Citation

Pollard, C. William, "Responsible Leadership - The Ethic of Right Behavior (London)" (2003). *C. William Pollard Papers*. 19.
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**CRPA Dinner
London
May 7, 2003**

C. William Pollard

”Responsible Leadership – The Ethic of Right Behavior”

The title of my talk tonight is: Responsible Leadership – The Ethic of Right Behavior. I realize that in light of what has occurred over the last several years in the leadership of business in America, some might suggest a different title for a talk from an American business leader, namely:

The Scandal of Irresponsible Leadership – the Reality of Failed Behavior.

Our American culture has recently produced too many failed examples of ethical leadership. People have reason to be skeptical, yes, even cynical. The examples are not limited to business. They include: failures of political leaders with the suggestion that ethical and moral behavior in one’s private life should have no bearing on the question of trust and confidence in one’s public life and failures of leadership in the Church with the suggestion that a cloak of secrecy and immunity was necessary to cover immoral acts of certain clergy.

As Peter Drucker would suggest, ethical standards do not vary by vocation, profession, specific functions or institutions of a society. There is not a business

ethic, a government ethic or a church ethic. The same standard applies to all. But what should that standard be and how should it be applied?

As one who has spent most of his life and career in business, allow me to share some thoughts with you from the specific context of the business world and hopefully we can learn together from this application of the specific to the general.

The Financial Times recently reported on what they called The Barons of Bankruptcy, a privileged group of top American business leaders who made extraordinary fortunes even as their companies were heading for disaster. They examined 25 business collapses since the start of 2001 and, according to their figures, the executives and directors of these doomed companies walked away, while their companies were heading into bankruptcy, with over \$3.3 billion in compensation and proceeds from stock sales.

How do we explain such a result? Was it an explosion of corporate greed? Was it a lack of moral leadership? Was it the result of gross negligence by a governing board? Was it incompetence by the outside auditors or a broken auditing system? Did our incentive systems, including stock options or the way we accounted for them, contribute to this result? Was the penchant for quarter-by-quarter performance based on the assumption that business growth and value can

be accurately reported and measured within a three-month time horizon also a contributing factor?

The reality is that all these forces and more have converged into what we might call “The Perfect Storm” – a storm that has contributed, along with a down economic cycle, to an overall loss in market value of over \$6 trillion. People have been hurt. Savings and provisions for retirement plans have been extinguished. Jobs have been lost. One of the world’s largest accounting firms whose reputation was once like sterling on silver is gone. And yes, there will be in America some corporate leaders and directors who will go to jail.

Do our recent experiences in corporate America involve more than just a blip in the evolution of understanding how best to manage and balance those ever-present human factors of greed, self-interest, bias, power and deceit with appropriate checks and balances of government supervision, control and, yes, more rules and regulation? Or, as we seek a solution, is there something more at work that is fundamental to understanding human behavior and that is essential to the development of moral and ethical leadership - a reformation of our thought and action – a call for a renewed focus on the development of the character and integrity of the leader.

Now, as I ask these questions, I realize that in America we are currently running pell-mell down the road of seeking to solve these ethical issues with more legislative answers and more rules of compliance. There is not time for me tonight, nor could I competently provide you with a complete overview of all the implications flowing from what we refer to as the Sarbanes-Oxley Act and the various initiatives by the New York Stock Exchange, NASDAQ or the SEC relating to changes in financial reporting, corporate behavior and corporate governance.

From my experience of serving on the board of directors of several public companies in America, I can tell you that senior management and board members are currently consumed in seeking to understand and respond to all of the new rules and issues of process, structure and compliance that are being added by this new legislation. As a result, there is some confusion and uncertainty, especially in the area of accounting practices.

The reality is that in America today the definition of earnings is a moving target. It is very much a work in process. A recent example is what happened to the ING group, a large Dutch insurance company, when they announced earnings for 2002. Their first announcement, in their home base of Holland, reflected annual earnings of \$4.6 billion. A few weeks later, they had to make a second announcement reporting a restatement of earnings for the same year under new

American accounting rules, which showed a \$10.3 billion loss. While accountants can explain the difference, for the average investor there can be no justification for such a result or lack of uniformity.

The new rules add a whole new set of standards and requirements relating to the independence of corporate directors and further require business firms to adopt codes of conduct and ethics with the added requirement to publicly report unethical behavior. While these provisions have the right sound and may pass the political correctness test they do not deal with the basic questions of: What is ethical? What is right?

Several months ago, there was a series of articles in the *Chicago Tribune* on the current state of the economy in America. The headline of the feature article was: Have We Sold Our Souls? The author's conclusion was that our economy was weak, not because of a lack of consumers, but instead because our society was weak. Markets are lackluster, he said, because the people involved with them are detached from a life of genuineness, meaning and purpose. He concluded that many corporate leaders no longer were able to define reality and have lied to themselves, their employees and their shareholders.

Effective and responsible leadership starts with the ability of the leader to define reality and in so doing, to understand the essence of their own human

nature and the human nature of the people they are leading. It is important for a business leader not only to be concerned about what people do and how they do it, but also to ask the deeper question of why people do their work and who they are becoming in the process.

Our humanity cannot be defined by a set of rules or solely by examining its physical or rational nature. It is unique in that it also has a moral and spiritual side. It is the spiritual side of humanity that influences character – our ability to determine right and wrong - to recognize good and evil – to make moral judgments – to love or to hate – to develop a philosophy of life – a world view, if you will, that can provide a leader with a moral and ethical framework and standard that is not relative and functions even when there are no prescribed rules.

Henry Ford once said: Why do I always get a whole person when all I really wanted was a pair of hands? Often, that is the way we look at people in business. We talk about people being units of production or the cost of labor in a P & L. As we downsize or re-engineer an organization, are we downsizing or re-engineering people? In fact, people do not come to us as just a pair of hands. They come to us as whole people and they must be understood and led as such.

We know that the wealth creation formula for now and in the future will be dependent more on human capital than on the available of land or reproducible

material assets. The human capital factor is estimated by most economists as to have a value that is twice as great as any physical resources. But where are we today in providing a meaningful purpose, a standard for responsible and moral behavior, for this human capital?

Robert Fogel, an economist from the University of Chicago and 1993 Nobel Prize winner, recently authored a book titled *The Fourth Great Awakening*, in which he traced the history of religious faith in America from pre-Revolutionary War times to the present. As he analyzed the effect of religion upon the history of our society and economy, he concluded that the biggest issue today in our culture is not the lack of employment opportunities or even the distribution of economic resources. Nor, in his judgment, is it a lack of diversity or equal opportunity. In his opinion, the major issue is simply a lack of the distribution of what he refers to as spiritual resources or spiritual assets. There is, he concludes, a void in our society in the development of the character of people and a provision for their spiritual needs.

In his book *The Death of Character*, James Hunter, a noted sociologist from the University of Virginia, concludes that while Americans are innately as capable of developing character as they ever were in the past, there are now few cultural or institutional guidelines in our society that call for its cultivation or

maintenance. The reason, he suggests, is because there is no consensus of moral authority.

So if human capital is so important to the future of our economies and if there is a void in the development of character and a lack of consensus of moral authority, how do we then lead in nurturing and developing a spiritual and moral dimension and the practice of right behavior?

History has taught us that there is a definite association between the individual character of the leaders of a society and the collective well-being of those being led. Plato suggested that if the leaders were not people of character, eventually there would be social disintegration.

Alexander Solzhenitsyn, in his classic work, *Gulag Archipelago*, recognized the reality that a line between good and evil passes through every human heart. He suggested that even within hearts overwhelmed by evil there was one small bridgehead of good, and even in the best of hearts, there remained a small corner of evil. His conclusion was that it was impossible to expel evil from the world in its entirety, but it was possible to recognize it and constrain it. For Solzhenitsyn, that source of truth and constraint came from God, an authority beyond himself.

In his commencement address to the students at Harvard University several years later, Solzhenitsyn reminded the students of the misery and evil of life under a communist regime and the consequences for a society without a moral compass. He also noted, however, that what he was increasingly finding in the West, with its growing dependence upon no other scale but a legal one, could not be a satisfactory answer. Such a society, he said, would never reach for anything higher than a set of rules and the letter of the law and would not take advantage of the high level of human potential and possibility. In such a culture, he concluded, there would be nothing more than moral mediocrity, paralyzing the noblest of impulses.

So where does the development of character and integrity or the exercise of self-restraint of impulses of evil and greed, come from, especially in a business environment?

Can the business firm of the 21st century become a moral community to help develop human character? A community that is focused on the dignity and worth of every person? A community with a soul? A community where, in the process of serving customers and making money, it's okay to raise the question of God as a source of moral authority? A community where truth is not an option but a mandate?

A community that expects of its leaders truth and transparency in the conduct of their personal as well as their business lives and in their commitment to serve the interest of others over and above their own self-interests.

As we mix the skills and talents of people at work, and work becomes a place where we attempt to accomplish certain social goals as we seek to correct the imbalances in the mix of opportunity, culture, race and gender, can't we also be about the process of developing the whole person and nurture their character and spiritual development? Why is this not also part of the social responsibility of the firm?

Now as I raise these questions, I do so not as a philosopher, educator, political or religious leader, but as I have already mentioned, simply a businessperson. Someone who over the past 25 years has participated in the leadership of what was a fast-growing and dynamic service company that we called ServiceMaster.

As I have now retired from those leadership responsibilities and look back, I can add up the numbers that show growth in profits, customers served and a return for our shareholders that on average doubled every five years. While these figures are part of a normal business assessment of performance, the conclusion for me cannot be limited to these money or value creation measurements. The real

and lasting measurement is whether the results of my leadership can be told in the changed and improved lives of people I have led.

As a business firm, during my leadership we wanted to excel at generating profits and creating value for our shareholders. I felt that if we didn't want to play by these rules, we didn't belong in the ballgame. But I also tried to encourage an environment where the work place could be a community to help shape human character - an open community where the question of a person's moral and spiritual development and the existence of God and how one related the claims of his or her faith with their work were issues of discussion, debate and, yes, even learning and understanding. I considered the people of our firm as, in fact, the soul of the firm.

My experience confirmed Peter Drucker's conclusions: that people work for a cause not just a living and that mission and purpose were important organizing and sustaining principles for the firm. Our corporate objectives were simply stated: To honor God in all we do; To help people develop; To pursue excellence; and To grow profitably. Those first two objectives were end goals; the second two were means goals.

We didn't use that first objective as a basis for exclusion. It was, in fact, the reason for our promotion of diversity as we recognized that different people with different beliefs were all part of God's mix.

It did not mean that everything was done right. We experienced our share of mistakes. We sometimes failed and did things wrong. But because of a stated standard and a reason for that standard, we could not hide our mistakes. Mistakes were regularly flushed out in the open for correction and, in some cases, for forgiveness and leaders could not protect themselves at the expense of those they were leading.

The process of seeking understanding and application of these objectives at all levels of the organization was a never-ending task. It involved matters of the heart as well as the head and it was not susceptible to standard management techniques of implementation or measurement. While at times it was discouraging, it also was energizing as one realized the continuing potential for the creativity, innovation and growth as there was a focus on the development of the whole person.

Now for me as a Christian, a follower of Jesus Christ, this environment provided an opportunity to live my faith in such a way so that it was not imposed upon my colleagues and fellow workers, but instead could be examined, tested,

understood and, in some cases, embraced by them as they sought not only to do things right but also to do the right thing.

One of the best ways that I found to lead in the development of our firm as a moral community was to seek to serve as I led and to reflect the principle that Jesus taught His disciples as He washed their feet: that no leader was greater or had a self-interest more important than those being led. In seeking to so serve, the truth of what I said could be measured by what I did. My ethic became a reality as I was able to serve those I led.

Servant leadership has been a learning experience for me. It has not come naturally. The first thing I had to understand was what it meant to walk in the shoes of those I would lead. This was a lesson that I would learn as I first joined the ServiceMaster team and I will close my remarks today with a story of that learning experience.

My predecessors in the business, Ken Hansen, who was then Chairman of the Company, and Ken Wessner, who was then President and CEO of the Company, were both involved in recruiting me to join the firm. They wanted me to come and initially head up the legal and financial affairs of the Company, reporting directly to Ken Wessner. In the selling of the job, it was suggested that

I, along with others, would be considered in the future for the CEO position of the Company.

The interviewing process took several months and as we were coming to what I thought of as the final interview to confirm compensation and starting date, I decided that I needed to know more about what it would take to be CEO of ServiceMaster. As I pressed the point and tried to get some assurance of how I could become CEO, Ken Hansen stood up and told me the interview was over. Ken Wessner then ushered me to the front door. As I left ServiceMaster that morning, I concluded that it was over. I had blown the opportunity.

A few days later, Ken Hansen called me on the phone and asked me if I wanted to have breakfast with him to discuss what had happened in his office. When we sat down for breakfast, he simply said: Bill, if you want to come to ServiceMaster to contribute and serve, you will have a great future. But if your coming is dependent on a title or position or ultimately the CEO's position, then you will be disappointed. To be successful at ServiceMaster, you will have to learn to put the interest of others ahead of your own.

His point was very simple. Never give a job or a title to a person who can't live without it. Determine at the front end whether the leader's self-interest or the

interest of others will come first. Know whether he or she can define reality by being willing to do what they ask of others.

I took the job and Ken in his own way tested my commitment and understanding of what he had told me. I spent the first six weeks of my ServiceMaster career out cleaning floors and doing the maintenance and other work which was part of our service business. There were lessons for me to learn, the most important of which was my dependence upon and responsibility to the people I would lead.

Later on in my career the faces of our service workers would flash across my mind as I was faced with those inevitable judgment calls between the rights and the wrongs of running a business. The integrity of my actions had to pass their scrutiny. When all the numbers and figures were added up and reported as the results of the firm, they had to do more than just follow the rules or satisfy the changing standards of the accounting profession. They also had to accurately reflect the reality of our combined performance – a result that was real – a result that you could depend upon. A result that would reflect the true value of the firm. Otherwise I was deceiving myself and those that I was committed to serve.

Drucker has referred to this type of leadership as reflecting the ethic of prudence. Prudence that demands of leaders to be an example by what they say

and report and by the way they live. In Drucker's judgment, the leader has only one choice - a choice between direction or misdirection, between leadership or misleadership. Responsible leadership requires the choice of an ethic of service and example of right behavior.

Leadership is both an art and a science and as I said earlier, the results of a responsible leader will be measured beyond the workplace and financials of the firm. The story will be told in the changed lives of people.

In seeking to lead an organization as a moral community for the development of human character, one should recognize that it is not always comfortable. At times it feels like you are in a rowboat rowing upstream. There will always be an abundance of skeptics with questions raised regarding a goal which mixes the principles of faith and work, God and profit.

The values and moral standards that I have referred to in these remarks are not new. They are timeless. They represent an ethic that can be applied to the leadership of any organization or institution of society.

We should never allow ourselves to be caught in that Machiavellian trap of concluding that the difference that sometimes exists between how people live and how they ought to live is so great that we should abandon standards of right

behavior and accept a result that excuses wrong and forsakes the responsibility to do good.

Rather, we should recognize that the leadership of people is truly a soul craft that involves both the moral and spiritual dimension of the leader and the people being led.

Character and integrity can be developed and learned. Leadership must set the example. People's minds and hearts need to be touched and, in some cases, transformed. It is not simply an issue of more legal process, structure and mechanical rules.

It was C. S. Lewis who reminded us: "There are no ordinary people. You have never talked to a mere mortal. Nations, cultures, arts, civilizations - they are mortal and their life is to ours as the life of a gnat, but it is immortals whom we joke with, work with, marry, snub and exploit." What is a business without people? What is corporate governance without integrity? What is leadership without the example of service and an ethic of right behavior?

For me, seeking to serve as I have led has been the salt and light of what I believe – the reality of my faith.

* *

Revised 6/26/03