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Cornell University
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“The Ethics of Responsible Leadership and the Practice of Right Behavior”

C. William Pollard

Restoring trust -- the theme of your conference. Would you have chosen this theme one year ago? At that time, most of us were focused on the events of 9/11 and what they would mean as part of running and managing a business. While terrorism has consumed much of our thoughts and attention this past year, there also is another subject that has captures our attention. The multiple situations involving distrust, corruption and greed in corporate leadership have resulted in a crisis of confidence and trust among shareholders and employees.

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

How do we explain this result? Is it an explosion of corporate greed? Is it a lack of moral leadership? Is it the result of gross negligence by a governing

board? Is it incompetence by the outside auditors or a broken auditing system? Have our incentive systems, including stock options and the way we account for them, contributed to this result? Has the penchant for quarter by quarter performance and the assumption that business growth and value can be accurately reported and measured within a three month time horizon also been 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 a 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 all but gone and yes, there will be some corporate leaders and directors who will go to jail.

How did we get here? Where did we get off the track?

It was Adam Smith, over 200 years ago, who first proposed that the pursuit of individual self-interest, along with that invisible guiding hand, should promote the general welfare of society. He suggested that the desire of people to be approved by others, along with free and open competition, should provide the

needed constraints on excessive greed. In his view, the role of government was to provide a system of justice and protection for such free market activity to exist.

Is our recent experience more than just a blip in the evolution of understanding how best to manage and balance those ever-present forces of greed and self-interest and government supervision and control? Or is there something more at work in our society that is fundamental to understanding the whole issue of integrity and what constitutes the practice of ethical and moral behavior in a business environment?

As I ask these questions, I realize that we are currently running pell-mell down the road of seeking to solve this confidence and trust issue with legislative answers and more government control and supervision. There is not time today, nor could I competently provide you with a complete overview of all the implications flowing from 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.

I am involved on the Board of Directors of three public companies and I can tell you that senior management and the members of the Board in all three companies are currently consumed in seeking to understand and respond to the

issues of process, structure and compliance that are being added by these new provisions.

The certification requirements of the CEO and the CFO were healthy and needed additions. For many of us who served in either of these capacities, we considered our responsibility to the shareholders, employees and creditors as including the substance of what is now required by the certification. Unfortunately, some others did not and the certification requirement will provide a uniform standard and penalty for all.

In a large corporate environment, however, the reality is that the CEO and the CFO will never have first-hand knowledge of all the facts that they need to know to support their signatures on the certification. They must rely upon others. They must rely upon a system of internal controls and generally accepted accounting principles consistently applied to report the business.

While this may sound like a fairly simple and straight-forward statement, I can tell you from experience over the past 25 years of serving as a CEO and a senior financial officer, that as a result of the complexity in business transactions and ambiguity in accounting standards, a CEO and a CFO are often faced with judgments in applying the art of public reporting.

The ground rules for exercising these judgments are changing and there are some uncertainties in the current environment. As these uncertainties are resolved, there may be the need for more restatement of earnings, not because of fraud or deceit, but simply because of a changing landscape.

Independence of corporate boards is important. For the past 15 years, our Company has had a charter provision requiring a majority of independent directors. The new rules bring clarification to the definition of independence and specifically limit the involvement of non-independent directors. It also is true, however, that most studies of Board effectiveness find little correlation between the overall performance of the firm and the extent of the independence of directors. There is no substitute for involved, experienced, competent and honest Board members who understand the business of the firm. No definition of independence can assure this result.

Included in the new governance requirements are mandated codes of conduct and ethics and added reporting requirements for unethical behavior. These provisions have the right sound and may pass the political correctness test, but do not deal with the basic questions of: What is ethical behavior? What is integrity?

When rules require honest, ethical or truthful behavior, do we know -- is there a general understanding -- of what ethics really means? In our post-modern world of thinking, we have been encouraged to place tolerance as the highest value and question whether there is such a thing as objective truth or right and wrong behavior. Do we solve the current problem of confidence and trust by simply enacting more rules of conduct or process and procedure or is there something more involved as we stop to consider the moral and ethical responsibility of a director or corporate leader to subordinate or restrain his or her self-interest for the welfare of the whole?

Several weeks ago, there was a series of articles in the Chicago Tribune on the current state of our economy. 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 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 were no longer able to define reality and have lied to themselves, their employees and their shareholders.

Hopefully we can learn some lessons from this current crisis in confidence and trust.

Over the years, much has been accomplished in our economic growth and ability to create wealth. We have made great gains in life expectancy, health, education and real income, but we have been unable to develop anything comparable in the area of moral behavior or relationships among individuals.

We know (especially those of you who are here today and have dedicated yourselves to the profession of human resources) that the wealth creation formula for now and in the future will be dependent more on human capital than the availability of land or reproducible material resources. This human capital factor is estimated by most economists 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?

Our humanity cannot be defined solely by its physical or rational nature. It is unique in that it also has a moral and spiritual side. It is the spiritual side of our humanity that influences our character, our ability to determine right or wrong, to recognize good or evil, to make moral judgments, to love or to hate, and to develop a philosophy of life – a world view, if you will – that can provide and lead with a moral and ethical standard that is not relative and cannot be waived even by action of a Board of Directors.

Robert Fogel, an economist from the University of Chicago and a 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 said, a void in our society in the development of the character of people and their spiritual resources.

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 our future, 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 the nurturing and developing of a spiritual and moral dimension

and the practice of right behavior? How do people feel a sense of meaning and purpose in their work – develop a strong family ethic – a sense of community in relationship to others – an ethic of benevolence – a willingness to engage in diversity – a sense of right and wrong, good and evil – a capacity to resist the lure of hedonism – a sense of discipline – a capacity for continuous learning – a thirst for knowledge – a willingness to subordinate self-interest for the interest of others - a desire for truth - an appreciation of quality – a willingness to love instead to hate – a desire to serve as they lead?

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 who are being led. Plato suggested that if leaders were not people of character, there would be social disintegration.

Dr. Armand Nicholi, a professor of psychiatry at the Harvard Medical School, has recently authored a book entitled *The Question of God*. The book provides an overview of a course he teaches at the Medical School comparing the world views of Sigmund Freud and C. S. Lewis. Both men viewed the question of God's existence to be life's most important question. Although Freud as an atheist and Lewis as a Christian each had different views about the source of moral authority – a standard of right and wrong – they both agreed that such a standard was needed as a basis for social order.

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, the source of truth and constraint came from God – an authority beyond himself.

So where does the standard of right and wrong or the restraint of evil and greed come from in a business environment? How do we define integrity or an ethic for the business leader?

Can the business firm of the 21st century become a moral community to help shape human character and behavior? 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 and a source for moral authority. A community where truth is not an option but a mandate – truth that reflects reality in the reporting of the profits and performance of a business.

We mix the skills and talents of people at work. Work has become a place where we are attempting to accomplish certain social goals as we seek to correct some of the imbalances in the mix of opportunity, culture, race and gender. If all of this is happening at work today, can't we also be about the process of developing the whole person? It was Henry Ford who, as he was explaining the merits of assembly line and mass production, is quoted as saying: "Why is it I always get the whole person instead of just a pair of hands?" How many of us, as we have built our business, have fallen into that trap of looking at people as a cost of doing business – an expense line on our P&L - something that can be down-sized or right-sized?

Now as I raise these questions, I do so not as a philosopher, educator, political or religious leader, but simply a businessperson. Someone who over the past 25 years has participated in the leadership of a fast growing and dynamic service company that we call ServiceMaster. Today we are serving over 10 million customers with one or more of our services, employing and managing over 80,000 people.

As a business firm, we want to excel at generating profits and creating value for our shareholders. If we don't want to play by these rules, we don't belong in the ballgame. But we also believe that we should work at being a community to help shape human character - an open community where the questions of a person's spiritual development, the existence of God and how one

relates the claim of his or her faith with their work are issues of discussion, debate and, yes, even learning and understanding. The people of our firm are, in fact, the soul of our firm.

Our experience confirms Peter Drucker's conclusion that people work for a cause not just a living. For us, mission and purpose has been an important organizing and sustaining principle of our firm. Our corporate objectives are simply stated: To honor God in all we do; to help people develop; to pursue excellence; and to grow profitably. Those first two objectives are end goals; the second two are means goals.

We do not use our first objective as a basis for exclusion. It is, in fact, the reason for our promotion of diversity as we recognize that different people with different beliefs are all part of God's mix.

It does not mean that everything will be done right. We experience our share of mistakes. We sometimes fail and do things wrong. But because of a stated standard and a reason for that standard, we can't hide our mistakes. They are regularly flushed out in the open for correction and, in some cases, for forgiveness. The process of seeking understanding and application of these objectives at all levels of our organization is a never-ending task. While at times it is discouraging, it also is energizing as we realize the continuing potential for the development of the whole person.

Now for me as a Christian, a follower of Jesus Christ, this environment has provided the opportunity for me to live my faith in such a way that it is not imposed upon my colleagues and fellow workers, but instead can be examined,

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

One of the best ways that I have found to support this process of helping to lead and develop the firm as a moral community is to seek to serve as I have led and to reflect the principle that Jesus taught His disciples as He washed their feet that no leader is greater or has a self-interest more important than those being 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 part of joining the ServiceMaster team over 25 years ago.

My predecessors, 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 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, 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 all 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 and leading 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 follow the rules. They also had to accurately reflect the reality of our combined performance; otherwise I was deceiving myself and those that I was committed to serve.

Drucker would refer to this type of leadership as reflecting the ethic of prudence. Prudence that demands of the leader to be an example by the way he or she lives. Drucker concludes that the leader has only one choice and that is the choice between direction and misdirection, between leadership and misleadership. Leaders have an ethical obligation to give the example of right behavior and to avoid giving the example of wrong behavior.

Leadership is both an art and a science. I believe that the results of a servant leader will be measured beyond the workplace. The story will be told in the changed lives of people. As one seeks 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 in the middle of an ocean. There will always be an audience of skeptics with questions raised regarding the appropriateness of such an objective and the mixing of principles of faith and work and God and profit.

For me, the common link is people – people who in their work are in the process of becoming somebody - people who are whole people, not just a pair of hands or the cost of doing business.

There are timeless values and moral standards of right and wrong and yes, there can be integrity in corporate leadership and corporate governance. It involves all of the issues currently being considered under the Sarbanes-Oxley Act and other regulatory initiatives. But it also involves the moral and spiritual dimension of the leader. Character and integrity can be developed and learned. Corporate leadership must set the example and I challenge and encourage you, as people committed to the development of human resources, to be involved in the process of character development; to lead in the establishment and improvement of your training and teaching on this subject. Don't avoid the tough questions. People's minds and hearts need to be touched and, in some cases, transformed. It is not just an issue of more legal process, structure and rules.

It was C. S. Lewis who said: “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 business without people? What is corporate governance without integrity? What is leadership – what is human resources - without an ethic of responsible and right behavior?

I conclude my remarks today with these lines from T. S. Eliot’s *Choruses from a Rock*:

“What life have you if you not have life together?
There is no life that is not in community.
And no community not lived in praise of God.
And now you live dispersed on ribbon roads.
And no man knows or cares who is his neighbor,
Unless his neighbor makes too much disturbance.
And the wind shall say, here were decent Godless people.
Their only monument the asphalt road,
And a thousand lost golf balls.
Can you keep the city that the Lord keeps not with you?
A thousand policemen directing the traffic,
And not tell you why you come, or where you go.
When the stranger says: “What is the meaning of this city?”
Do you huddle close together because you love each other?
What will you answer? We all dwell together,

To make money from each other? Is this a community?
And the stranger will depart and return to the desert.
Oh my soul be prepared for the coming of the stranger.
Be prepared for him who knows how to ask questions.

* * * *

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