

CONTEMPORARY HUMAN RESOURCES MANAGEMENT:
ISSUES, CHALLENGES, AND OPPORTUNITIES

WHEN A NEW LEADER TAKES OVER

Toward Ethical Turnarounds



RONALD R. SIMS

When a New Leader Takes Over

A volume in
*Contemporary Human Resources Management:
Issues, Challenges and Opportunities*
Ronald R. Sims, *Series Editor*

This page intentionally left blank.

When a New Leader Takes Over

Toward Ethical Turnarounds

Ronald R. Sims

College of William and Mary



INFORMATION AGE PUBLISHING, INC.
Charlotte, NC • www.infoagepub.com

Library of Congress Cataloging-in-Publication Data

A CIP record for this book is available from the Library of Congress
<http://www.loc.gov>

ISBN: 978-1-68123-943-9 (Paperback)
978-1-68123-944-6 (Hardcover)
978-1-68123-945-3 (ebook)

Copyright © 2017 Information Age Publishing Inc.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, microfilming, recording or otherwise, without written permission from the publisher.

Printed in the United States of America

Contents

Acknowledgments vii

1 Toward an Ethical Turnaround: When a New Leader Takes Over 1

2 Unethical Behavior in Organizations 35

3 New Leaders and Ethical Turnarounds: Employee Involvement
is the Key 89

4 Toward an Ethical Turnaround: An Initial Look at When a
New Leader Takes Over 131

5 Ethical Turnaround-in-Action: Examples and Lessons Learned 175

6 Proactive Leadership: Beyond the Ethical Turnaround..... 219

7 The Role of Ethics Education During and After an Ethical
Turnaround 273

8 The New Leader’s Challenge: Rebuilding and Sustaining
Reputation317

9 Building a Truly Sustainable Ethical Environment: Beyond the
Scandal and Turnaround..... 373

This page intentionally left blank.

Acknowledgments

A very special thanks goes to George F. Johnson at Information Age Publishing, Inc. who once again has provided the outlet for my ideas. I also want to thank Herrington Bryce who continues to serve as my colleague, mentor, and valued friend. The administrative support of the Raymond A. Mason School of Business at the College of William and Mary is also acknowledged.

Thanks and appreciation go to my children who have always been my source of motivation.

This page intentionally left blank.

Toward an Ethical Turnaround

When a New Leader Takes Over

The ethical failures over the years have populated the popular and academic press on business ethics. Following the Enron debacle, a *Business Week* editorial began with these words:

There are business scandals that are as vast and so penetrating that they profoundly shock your most deeply held beliefs about the honesty and integrity of our corporate culture. (pp. 31–32)¹

Certainly Enron almost two decades ago, and Volkswagen and Wells Fargo, and others more recently, demonstrate that organizations and in many instances, new leaders must undertake dramatic efforts to steer or try to turn these organizations in a different ethical direction.

Publius Syrus, a former slave from the 1st century BC, penned the poignant statement asking, “What is left when honor is lost?” (p. 31).² Providing that “he who has forfeited his honor can lose nothing more” (p. 31),³ Syrus commented upon the fact that honor, integrity, and ethics are all vital

elements of character. Once honor and integrity have been tarnished, it is extraordinarily difficult to rebuild trust, faith, or belief in an individual or an organization. As human beings inevitably make mistakes that negatively influence the organizations in which they operate, it is imperative that new (and old) organizational leaders understand how to correct these ethical faults and blunders in organizations. To turnaround or rescue an organization in the past, today, and in the future from its member's ethical failings, new leaders (and others at all levels of the organization) must effectively execute an ethical turnaround by moving the organization in a different direction.

This chapter is intended to provide a better understanding of efforts to implement ethical turnarounds, thus, steering the organization in a different direction which not only rebuilds the organization-employee relationship but also rebuilds the organization's reputation. This chapter first provides a discussion of turnarounds and new broom leadership. Next, the discussion focuses on the actions of new leaders in undertaking ethical turnarounds. A framework for ethical turnarounds is discussed in detail along with specific examples of ethical turnarounds and their implications for what others can learn about ethical turnaround efforts before concluding the chapter.

Turnarounds and New Broom Leaders

A review of the academic literature or business press highlights a number of ethical scandals involving organizations like WorldCom, Adelphia, Arthur Andersen, HealthSouth, Tyco, Rite-Aid, ImClone as well as others like Salomon Brothers, EF Hutton, and Beech Nut a decade or so before, that resulted in increased attention on business ethics. And, just when we thought we were past the corporate scandals of the past decade, several new crises have emerged at a number of companies—Uber, 7-Eleven, Toshiba, United Airlines, General Motors, Peanut Corporation of America, Turing Pharmaceuticals, Valeant, Volkswagen, Mitsubishi Motors, and FIFA⁴ help keep the spotlight on ethical or moral failure in the United States and abroad and on the relationship between organizations and their critical stakeholders.

The highly publicized ethical scandals mentioned above (and others) are clear evidence that instances of unethical behavior and organizational corruption are never ending. Organizations and individual employees have the potential to create an environment with “the presence of chaos, change, poor management, and bullying in an organization” (p. 376)⁵ that is difficult for its employees and stakeholders. Whether the leader (i.e., organization) has committed an ethical act or simply made a poor decision,

perhaps even a series of poor decisions, the organization may lose its credibility with its stakeholders, even its legitimacy as an upright entity possessed of integrity, and the public faith.⁶ It has been noted that unethical behavior in organizations leaves few untouched.⁷

Organizations that violate social, moral, or legal codes; commit fraud of any sort; engage in asset misappropriation, pollution, or environmental damage; discriminate against individuals; breach contracts, or leave obligations unfulfilled must correct their actions as quickly and honestly as possible to restore the faith and trust of the employees, customers, and other stakeholders.⁸ Without a turnaround, organizations run the risk of losing customers, employees, and financial support. Because organizational strife and chaos from individuals or the environment can significantly impact productivity, engagement, and workplace success, the entity's efficiency, output, and service to customers will ultimately suffer. Employees that are constantly pressured by chaos and a tumultuous work environment with constant change, upheaval, and discord cannot perform at sufficient levels, negatively impacting output.⁹

As suggested above, the accompanying media attention, coupled with the public backlash against the leadership and unethical behavior and culture of the organization that persists, has serious implications for employees who are not directly involved in the scandal but experience repercussions simply because they are members of the organization. If not addressed, in a timely manner these repercussions will have both direct and indirect effects on organizational and employee outcomes such as a damaged organizational reputation, organizational commitment, absenteeism, turnover intentions, and performance.¹⁰ In instances where there is an ethical scandal the public outcry is often aimed at the entire organization, and unfortunately many employees, members of the board, and so on end up feeling the effects. Effects which often are perceived as a violation or breach of the perceived contract or expectations that exist between an organization and the broader community and person-organization (P-O) ethical fit between employees and the organization (i.e., leaders) and not to mention the organization's reputation with its external stakeholders. When such a violation or breach occurs it is not unusual for new leaders to be brought into organizations like those mentioned earlier with the explicit task of repairing, restoring, or rebuilding trust and the organization's reputation.

In a 2003 article, *Leadership and the Psychology of Turnarounds*,¹¹ published in the *Harvard Business Review*, Rosabeth Moss Kanter noted in her study of nearly two dozen turnaround situations, in various stages of progress, that

4 ■ *When a New Leader Takes Over*

[e]ach of these executives restored their people's confidence in themselves and in one another—a necessary antecedent to restoring investor or public confidence. They inspired and empowered their organizations to take new actions that could renew profitability. In short, each had to lead a psychological turnaround. (p. 56)

New Broom Leaders and Turnaround Leadership

One need only to look at new turnaround leaders (new brooms)¹² at Toshiba, United Airlines, Valeant, Volkswagen, and other organizations who have recently been brought in to restore employees' and others' trust and confidence in the organization which damaged each organization's internal and external credibility and reputation. Considering the potentially negative outcomes of ethical scandals for organizational members and others it is important for organizational leaders, and especially, new leaders brought in to "patch the ethical hole in the ship" and turn the organization in a new and ethical direction. Kanter suggests that such an undertaking requires turnaround leadership which often means a new leader or "new broom" where the leader sweeps the organization clean.¹³ More specifically, according to Kanter:

A different leader symbolizes to everyone that the weight of the past can be left behind. For one thing, people tend to interpret the old bosses' actions as self-justifying, chosen to rewrite past history. After all, if the old superintendent or principal or CEO had wrong ideas in the past, why should people believe he or she has the right idea now? New leaders, in contrast, are viewed as objective (even when bringing obvious biases).

New leaders can more easily remove barriers that previous bosses had erected and provide a fresh perspective. Sometimes their major role is to encourage the people already there, who know what the problems are, to whip into action to find solutions. Sometimes they need to bring a different vision and an alternative set of practices. (p. 167)¹⁴

History, society, and the business world have all learned the hard lesson that "there are unethical and even toxic [individuals] who exploit the loopholes in management systems and seek to fulfill their personal desires at the expense of their organizations and its employees" (p. 533).¹⁵ These unethical and destructive individuals have historically been guilty of fraud, theft, questionable earnings management choices and manipulations, creating deceptive financial statements and publications, and eroding trust from those very organizations they serve. The unethical actions from improper leaders damage all parties related to the organization, especially employees and stakeholders.

Whether this organizational damage is in the form of poor financial returns, unethical behaviors, lackluster performance, or general organizational malaise, a substantial alteration in culture and operations is usually necessary. Regardless of who is responsible for the unethical behavior the organization's reputation is damaged and it has lost its credibility with its internal and external stakeholders, its legitimacy as an ethical organization with integrity, and the trust of the broader community. Organizations that violate the internal or external ethical understanding it has with its stakeholders have no choice but to try to turn things around and rebuild their relationships with employees, customers, and other stakeholders. One scholar has stated, "no matter what the state of the economy, no company is immune from internal hard times"¹⁶ (p. 19) whether from stagnation of operations, declining performance, financial difficulties, economic change, or ethical infractions. Therefore, a turnaround is often necessary to redirect the organization in a more positive, upright, and ethical direction.

No industry or organization can escape experiencing challenges and difficulties while operating in and attempting to adapt to an increasingly complex and global environment. To be successful, organizations have to make drastic changes in their intended direction. An ancient example of turnaround leadership occurred when Pharaoh hired Joseph to manage Egypt, effectively changing leadership. This appointment turned Egypt's focus from the short to the long-term to strategically managing food resources for an extended famine.¹⁷ The actions of Thomas Jefferson were also representative of turnaround leadership. As president Jefferson was a staunch Anti-Federalist that initially supported very limited federal government and stronger states' rights.¹⁸ However, Jefferson completed a major philosophical turnaround that violated his own beliefs to complete the Louisiana Purchase, altering the future of the young United States of America.¹⁹ More recently, the Roman Catholic Church has been experiencing its own organizational turnaround. After decades of denying and hiding sexual abuse and crimes committed against children by members of the clergy, the Church executed a turnaround with the *Charter for the Protection of Children and Young People* that publicly promised to investigate any allegations against priests or deacons. If the accused is found guilty through an institutional investigation, the offending priest is removed from active ministry and instructed to comply with relevant civil and state law.²⁰

One scholar codified whether organizations should focus on strategic or operational turnarounds based on their current strategic and operating health. The stronger the strategic health, the more likely the organization is to use an operating strategy. For those organizations with stronger operating health, an operating strategy is also appropriate. However, the

imperative first step of a turnaround for any entity is the dismissal of current upper management that caused the problem or allowed the infraction to occur through act of omission.

Regardless of the type of turnaround, the beliefs and conduct of current leadership must be entirely removed to make room for positive change.²¹ This view is in line with the “new broom” leadership philosophy mentioned earlier.²² Organizational philosophy socializes employees and stakeholders to the received wisdom or organization’s ethics, codes, and norms. Therefore, it is only by removing all remaining vestiges of the prior leadership that the underperforming and/or unethical culture can be eradicated.

It has been suggested that because there is a natural human desire to maintain the status quo, change is often extremely difficult for organizations. Individuals subconsciously work to conserve and protect the current organizational ethos. Because change is difficult to undertake, a culture of inefficient and/or unethical comportment tends to feed on itself and support additional unfortunate conduct.²³ Leadership must alter the mindset and psychological associations (i.e., implement a psychological turnaround) of the organizational culture for any real, permanent change.²⁴ To correct and improve the organization, its reputation, its culture, and its performance, the beliefs and conduct of current leadership must be removed for positive or ethical transformation.²⁵ Several examples of organization’s removing leaders who were in place during an ethical scandal will be discussed briefly later in this chapter and in more detail in Chapters 4 and 5, however, we will first take a brief look at some of the actions new leaders must consider to bring an ethical turnaround to fruition.

Ethical Turnaround Models?

What can or must new leaders do to implement a successful ethical turnaround? One point of departure is Kanter’s²⁶ suggestion that

[i]n the end, the only way a CEO can reverse a corporate decline is to change the momentum and empower people anew, replacing secrecy and denial with dialogue, blame and scorn with respect, avoidance and turf protection with collaboration, and passivity and helplessness with initiative. (p. 60)

Thus, for Kanter a new leader responsible for reversing the effects of an ethical scandal any turnaround effort should (a) promote dialogue (i.e., open channels of communication starting at the top), (b) engender respect (i.e., move people toward respecting one another’s abilities), (c) spark collaboration (i.e., changing the structures to support collective/collaborative

problem solving and commitment to new courses of action), and (d) inspiring initiative (i.e., empowering organizational members to initiate the turnaround actions).

An alternative way new leaders, who are responsible for an ethical turnaround could approach the process is based on John Gabarro's book *The Dynamics of Taking Charge*, where he discusses the critical success factors in the taking-charge process.²⁷ According to Gabarro, taking charge is the process by which a manager (or for our purposes a new leader) establishes mastery and influence in a new assignment. Mastery means acquiring a grounded understanding of the organization, its tasks, people, environment, and problems. Influence means having an impact on the organization, its structure, practices, and performance.²⁸ Gabarro's step or stage model includes: (a) the taking hold period (i.e., the new leader, for our purposes, takes corrective action to begin moving the organization beyond the ethical scandal); (b) immersion (i.e., the new leader moves beyond the initial interventions of the ethical turnaround to include gaining a better understanding of the role of organizational culture, structure, and policies and procedures, and accompanying actions); (c) reshaping (i.e., the new leader's actions at this point are directed at reconfiguring specific aspects of the organization to further implement the ethical turnaround developed during the immersion stage); (d) consolidation (i.e., the new leader and other organizational members now are focused on measuring the impact of the ethical turnaround interventions to date and taking corrective actions based on their ongoing diagnosis); and (e) refinement (i.e., by now the new leader is completely in charge of the ethical turnaround and focuses on solidifying and refining interventions intended to further institutionalize ethical behavior in the DNA of the organization).

Based on Gabarro's work it should be emphasized that new leaders take charge in three broad categories which in practice are not sequential, but simultaneous.²⁹ They are:³⁰ the interpersonal work of developing effective relationships with people (i.e., key stakeholders); the business-analytic and strategic tasks, (i.e., ongoing diagnosis and implementation of strategies), and organizational work (i.e., assessing, developing, and improving the organization).

Kurt Lewin established a three-stage model³¹ new leaders can use in their ethical turnaround efforts that allows them to focus both on the process (i.e., steps of change) of change and the more specific outcomes of the change. Edgar Schein built on his original model to develop what he called "cognitive redefinition" of individuals within an organization.³² Several stages are involved with cognitive redefinition. Stage 1 is the unfreezing of an employee's existing beliefs. The unfreezing of the existing beliefs

allows the employee to be motivated to accept change. From an ethical perspective, this unfreezing allows employees to consider alternative facts and arguments that support an ethical turnaround and a strong ethical culture.

Stage 2 occurs when the beliefs and behaviors have been unfrozen and the perceptions and attitudes of the employees are allowed to move to a new state. This is when the actual change occurs in the ethical beliefs of the employees. During Stage 2, the new leader(s) need to ensure that what is considered acceptable and unacceptable behavior is clear to each employee in the organization.

Stage 3 is when the refreezing takes place and the new perceptions, ideals, and behaviors are “locked in” or refrozen. Also, during State 3, the new leader(s) must reinforce their commitment to support strong ethical behavior.

From a new leader’s perspective, two key responsibilities need to be incorporated in an ethical turnaround to ensure the organization’s employees have a strong ethical value system to guide them. The first responsibility is to verify that ethical decisions are made by all levels of leaders and employees. The second responsibility is to develop an organizational culture that supports the ethical decision-making process. Employee behavior is important in establishing a positive organization culture because everyone within the organization is ultimately responsible for the ethical behavior of the organization. To formalize a culture of ethics a new leader should focus on employee behavior. This culture should include three basic components:

1. Define the new leader’s philosophy and organizational values in a mission statement.
2. Develop guidelines for employees.
3. Establish a formal channel for employees to report violations.

As will be noted later in this book in our look at the examples of ethical turnarounds at General Dynamics, Salomon Brothers, WorldCom and Putnam Investments and others, each of these components were part of the new leader’s ethical turnaround efforts.

From the top down, new leaders must ensure that employees will be operating in an organization filled with trust. There should be no hidden agendas for any senior leaders or for other employees in the organization. What is important is the employee’s view of the ethical leadership of new leaders and others at the top of the organization. It is critical in the process of establishing an ethical culture that new leaders create a culture where leaders at all levels of the organization prove that they are committed to

the process of changing the culture of the organization in the aftermath of an ethical scandal. New leaders must hold themselves and other leaders responsible for their actions, and employees must see this taking place.

The long term nature of a successful ethical turnaround means that companies have to work below the surface for decades before they have the right to wear the halo. For example, Nike faced allegations throughout the 1990s that its strategy of outsourcing manufacturing was leading to abusive conditions and low wages for the people making its trainers and clothes. It wasn't until 1998 that it confronted this crisis when the company's CEO Phil Knight acknowledged that the furor was damaging the brand and hitting sales. "The Nike product has become synonymous with slave wages, forced overtime and arbitrary abuse," he said. "I truly believe the American consumer doesn't want to buy products made under abusive conditions" (p. 1).³³

Nike's ethical and reputational turnaround is still underway nearly 25 years later. The company's efforts have involved auditing hundreds of factories, help in creating the "Fair Labor Association" and monitoring a code of conduct on labor rights. Vice president of sustainable business and innovation Hannah Jones recently commented that sustainability was at the heart of the company's strategy: "It's gone from being risk management, a reputation management function to one that's about innovation and literally transforming the way we do business" (p. 1).³⁴ Jones admitted that Nike had been defensive when it was attacked for its labor practices and it had taken time for it to admit that there was a problem. Only then could it set about solving it. But she added that nearly 20 years later, Nike is only about 20% of its way along the journey to becoming a sustainable brand.³⁵

According to sustainability expert Solitaire Townsend, co-founder of London-based consultancy Futerra Sustainability Communications, there are four steps companies take on the road to redemption or in our case an ethical turnaround. She likens such a turnaround to the steps an individual takes to free themselves from alcoholism or drug addiction.³⁶

First, companies adopt a defensive position and try to discount the criticisms of campaigners and the media—whether about poor treatment of workers, environmental damage or products which harm consumers. During the "denial stage" they try to discredit the arguments of critics, question their logic, pan their research, and question their moral standards. In most cases, this fails.

The second and vital stage is admitting internally to the problem. She says this might come after a change of senior management or when a new generation of managers comes through. Townsend adds, "Then there is either monumental greenwash and an attempt to manipulate and control

and manage the reputation or a genuine attempt to deal with the problem” (p. 2). When honest appraisal of the problem has been made, the organization can attempt to repair the damage. This will involve engaging with critics, and internal and external stakeholders and other experts to get their feedback on how the ethical scandal and company culture should be tackled and working with them to move beyond the ethical scandal. Only after these stages have been reached—and that can take many years—should a company take the story of its ethical turnaround for granted and start talking openly about the solution. The four should be approached with the utmost caution.³⁷ Like the other suggested ethical turnaround models above, the four steps are the same for every company, regardless of where they are around the globe or the ethical scandal. Ethical turnarounds are not easy and the best way to deal with them is to avoid having to go through them in the first place by avoiding unethical actions all together.

According to two scholars, “Any effort to turn around an organization ethically, financially, and strategically [first] requires a compelling vision to motivate executives and employees” (p. 305).³⁸ New leaders and their organizations must address the various ethical and related problems identified by the numerous stakeholders, including employees, management, customers, clients, creditors, regulatory agencies, and stakeholders as a whole. Only with a clear and coherent vision focused upon organizational direction and an effort to change the perceptions (both internally and externally) and behaviors of the organization can it correct its failures or misdeeds.³⁹ Three important questions to answer before designing and instituting a turnaround strategy in a business are:⁴⁰

- Is the business worth saving, or is it better to liquidate it now?
- If the business is worth saving, what is its current operating health?
- What is the business’ current strategic health?

If the board of directors, the new leaders, and others determine that the organization is worth saving (and salvageable), it is important to decide that the change (or ethical turnaround) is fiscally (and operationally) possible before going through with the substantial effort and funds usually demanded to change direction.⁴¹ Unfortunately, some organizations were so sullied that no amount of money could solve its problems. Enron, WorldCom, Arthur Andersen, and Lehman Brothers, for example, had so much financial fraud and corruption that the companies were irredeemable in terms of their corporate reputation, stakeholder trust, and financial status, making bankruptcy and divestiture the only option to recuperate

any remaining worth. In addition, unethical leadership and behavior may be so insidious and destructive that it spreads to other entities and organizational partners. Enron, a multi-billion dollar energy trading entity, due to its aggressive, illegal, and unethical business practices, destroyed itself. However, Enron's unethical behaviors were so pervasive that it also devastated its colluding auditor, Arthur Andersen, one of the five most powerful public accounting firms in the world at the time.⁴² The corruption, fraud, and unethical behavior were so widespread that Enron could not be redeemed, and to attempt a course correction at the time the accounting scandals broke would have been financially impossible.

Similar to Enron, Lehman Brothers could not recover from a series of ethical lapses.⁴³ Briefly, in an unprecedented move that rocked the financial industry to its core, on Sept. 15, 2008, Lehman Brothers filed for Chapter 11 bankruptcy protection. Not only was it the largest bankruptcy case in United States history, but it also came after repeated assurances from the company's chief executives that finances were healthy, liquidity levels were high, and leverage was manageable. The implosion of this Wall Street institution shattered consumer confidence during a time of fragility, and in the aftermath of its collapse, a number of questionable decisions came to light.

The collapse of Lehman Brothers was not the result of a single lapse in ethical judgment committed by one misguided employee. It would have been nearly impossible for an isolated incident to bring the Wall Street giant to its knees, especially after it successfully withstood so many historical trials. Instead its demise was the cumulative effect of a number of missteps perpetrated by several individuals and parties. These offenses can be categorized into three acts: (a) lies (i.e., painting an unrealistically optimistic picture of the company's financial situation) told by Chief Executive Officer Richard Fuld, (b) concealment (i.e., blatant misrepresentation of the financial health) endorsed by Chief Financial Officer Erin Callan, and (c) negligence (i.e., failure to reveal the extensive steps taken by executive leadership to conceal financial problems) on behalf of Ernst & Young.

The story of Lehman's, Enron's and other organization's demise lies in the lack of ethical behavior by its senior leaders (and professional advisors). They made conscious decisions to deceive, manipulate, and commit unethical acts and the consequences proved too dire to preserve their existence.

In those situations where the board of directors and other senior leaders determine that it is fiscally possible to revive an organization, they most often hire a new leader, and one of the new leader's first requirements is to work to develop a "compelling vision" that demands the organizational change. In reality, course adjustment is often achieved through new leadership. In

addition, hiring a chief ethics and compliance officer (CECO), restructuring the entity, including policies and procedures, removing and changing the reward structure, and demoting and/or firing the “old guard,” are all done in an effort to restore trust and faith in the organization.⁴⁴

In addition to unethical leadership which resulted in the ethical scandal, the structure of an organization may lack appropriate controls and reporting structures, for example, to “blow the whistle” on improper activities or unethical behavior. As part of an ethical turnaround, it is imperative that new leaders provide the support to move departments, functions, and reporting as necessary to align compliance and responsibility while providing the policies and practices to support this change. Cases such as Salomon Brothers, HealthSouth, Putnam Investments, Tyco, Waste Management, Citigroup, Proctor and Gamble, General Motors, and InterMune all exemplified the need to change policy and structure with regards to reporting unethical or improper actions for a turnaround to be successfully accomplished.⁴⁵ This restructuring may include instituting policies where there were none (internal controls, codifying actions and responsibilities, etc.), correcting policies that were misapplied, or even eliminating verbal or written policies that allowed for incorrect practice. New leadership may need to change the functional structure of the institution to effect change because the CECO “always needs a direct unfiltered line to the highest governing authority” (p. 26).⁴⁶ Senior leadership and the board of directors must also allocate the funds and resources to increase compliance audits, monitoring, internal controls, provide a helpline, and sufficiently staff the organization.

Another important step during an ethical turnaround is the removal of the mechanisms that encouraged and rewarded the bad behavior—financial bonuses, pay schemes, and fringe benefits/perks of management positions. Individuals in positions where compensation, bonuses, and personal wealth are closely tied to organizational performance are especially at risk for unethical behavior to better their personal situations. These personal financial benefits may serve to encourage aggressive or unethical behavior at the expense of the entity and its shareholders. As will be highlighted later in this book, removing these inducements, as was the case at Putman Investments and Tyco, cuts organizational expenditures and decreases the personal financial rewards for earnings manipulation; therefore, it is imperative to remove those weaknesses entirely during an ethical turnabout.⁴⁷ While this shift will not eliminate all incentives for unethical action, it certainly is a positive step towards reducing the personal benefit of unethical behavior.

In the throes of an ethical turnaround, the last thing a new leader needs is to not be able (and willing) to demote and dismiss employees from the organization if they have or are known to be unethical. If current

employees are disinclined to embrace the new organizational culture and leadership then they must be removed by the new leader. This restructure is especially important for the “old guard” of organizations that have allowed, condoned, or engaged in unethical behavior under previous leadership in the past. The ethical turnaround may necessitate the removal or demotion of all senior leaders, board of directors, legal staff, internal audit staff, even the external auditors if they were complacent in the fraud or unethical activities as was the case in the actions of many of the organizations mentioned above. Given that leaders often hire like-minded individuals, unethical leaders of the past may have appointed or promoted employees that were willing to bend or break ethical or organizational standards, but only those individuals and stakeholders that are willing to embrace the new ethical culture should remain with the organization.⁴⁸

Our discussion to this point has provided a brief overview of ethical turnaround models available to new leaders along with a number of specific things that require their attention. The remainder of the chapter focuses on an initial discussion of a number of steps the new leader must take in implementing an ethical turnaround. These topics will be discussed in more detail later in this book.

Creating and Maintaining Cultures for Open Communication and Voicing Moral Concerns

New leaders and organizations that are serious about an ethical turnaround commit to creating and sustaining an environment or culture based on ongoing and open communication (e.g., dialogue, good moral conversation, and conversation learning) where the normal response when employees have ethical or moral doubts about a course of action, is for him or her to speak up and address the issue. New leaders must be sensitive to the negative consequences that may have existed and led up to employees’ failure to speak up and address moral or ethical concerns. This failure to decide to not voice a moral concern may be a result of employees’ fear over what comes next in terms of possible negative sanctions from colleagues and leadership.

Moral silence in the form of, for example, muteness⁴⁹ can be a feature in organizations where people are afraid to speak their minds on moral matters: “Many people hold moral convictions yet fail to verbalize them. They remain silent out of deference to the judgements of others, out of fear that their comments will be ignored, or out of uncertainty that what they might have to say is really not that important” (p. 1). Individuals in organizations can have the impression that they are alone in having moral

misgivings about how their workplace operates. They can be unaware that colleagues in the same unit actually share their moral concerns, since they never raise the issue and address the topic collectively.

A new leader who wants to create an environment that encourages open dialogue and discourages moral muteness means employees care enough to intervene when they have moral or ethical concerns. As suggested in the ethical turnaround models earlier, one of the first and important steps for the new leader is to establish open communication and dialogue in organizations. Such an environment is key to employee decision-making in the workplace beyond ethics.

It is important that new leaders are proactive in their efforts to identify and prevent moral muteness, moral blindness, moral disengagement, and moral neutralization from taking hold in their organizations for reasons that go beyond ethics as discussed in Chapter 6. Expecting each employee to voice their moral concerns has the positive double effect of both (a) disrupting the potential for things like moral muteness to take hold in an organization and (b) accentuating that the ethical situations or dilemmas, for example, are real and requires dialogue and open discussion regardless of how serious it may or may not look.

New leaders can increase the likelihood of employees feeling comfortable in participating in good moral conversation and conversational learning as discussed in Chapter 6. In addition, new leaders can also help employees make better decisions when confronted with ethical dilemmas or situations by integrating a framework for decision-making in the organization. What new leaders are essentially doing is providing employees with methods to stand up for their moral beliefs and values, even when they are under pressure from colleagues, leaders, customers, and other stakeholders not to do so. Such efforts encourage employees to overcome moral silence and speak their minds when they observe decision-making and conduct that goes against their moral values. It also provides concrete action plans and guidelines for employees to voice their moral concerns and make better decisions.

Employees will continue to face moral or ethical dilemmas where they need to give appropriate weight to legal, ethical, moral, reputational, economic, and value based aspects of the situation. They cannot rely solely on moral intuition or gut feeling—Kahneman’s System 1 thinking—but also need to be able to analyze the situation carefully—Kahneman’s System 2 thinking.⁵⁰ The combination of good analytical skills and stable character can make an employee better able to make decisions when confronted with moral or ethical dilemmas, but we also know from studies in social

psychology and criminology that more or less anybody can become entangled in ethical or moral wrongdoing, given the right circumstances. In organizations, we depend upon our co-workers to intervene and stop us when ambition and other factors tempt us to take moral shortcuts. It can be enough that they raise doubts about the path we are contemplating, since that gives us reasons to rethink and reschedule. Ethics in contemporary organizations can build on a rich array of research and knowledge, from well beyond the traditional sources of moral or ethical philosophy. Expecting employees to make good or ethical decisions and “do the right thing” can make the workplace less vulnerable to the unpredictable and erratic activities and negative implications resulting from groupthink, moral muteness, and unethical behavior.

Organizational Strategies

What do we know about making lasting and substantial change in organizations? Our discussion of ethical turnaround in action in Chapters 4 and 5 provides some answers. Change in the future will continue to be more successful when the process to achieve it is strategic (that is, grounded in the organization’s goals) and systemic.⁵¹ It realigns the internal systems of the organization—the structural and technical, the political and the sociocultural—so they are consistent with and reinforce the new design and goals of a culture of character. In other words, the organization is building a new “culture of character infrastructure.” We also know that such efforts are most likely to succeed if they are designed and implemented in a participatory process that involves those who have a stake in its operation. We have learned that ad hoc, reactive, autocratic approaches are much less likely to work. The development of this culture of character infrastructure and the process to implement it is a fundamental responsibility of new leaders charged with implementing the ethical turnaround. The board of directors also has a key role. It needs to ensure that the infrastructure is in place, that it reflects the interests of the broader community, and that it is working well.

The characteristics of a culture of character infrastructure:

- has organizational systems orientation; a linked set of structures and processes;
- primary focus is on entire range of ethical issues and decision: individual and organizational;
- responsive to all the moral and ethical standards of all stakeholders to the organization, including the local and broader community and its diverse stakeholders;

- time perspective is long-term; and
- all levels of organization are involved, including board members, senior leadership, and other employees and representatives of the broader community (often via board or other).

How might new leaders implement this moving forward? Based on the successful change processes used in many organizations, new leaders can use the following four strategies:

1. Conduct a formal process to clarify and articulate the organization's values and ensure that they are linked to the mission and vision.
2. Facilitate dialogue, good moral conversation and conversational learning about ethics and ethical issues (i.e., similar to what will be discussed in Chapter 6), including values clarification and reflection on their link to everyday work and decisions which may contribute to moral silence and unethical behavior.
3. Create structures that encourage and support the culture of character.
4. Create processes to monitor and offer feedback on ethical or character performance.

Integrating Values and Vision Statements

Building a culture of character involves a process that results in a statement of values and vision. The initial value of this process lies in new leaders sorting and clearly articulating the values of greatest importance to the organization (Chapter 9 addresses the issues of an organization's value systems in institutionalizing and sustaining ethics following an ethical scandal). The process is especially valuable as a foundation for ethical or character organizational action if it is used as a point of reference, promoting dialogue and conversation among employees in the organization whose work should be guided by the statement, and encouraging reflection and growth by understanding the implications that the vision and values statement has for their work. In practice, the power of this element derives as much from the learning experience of the dialogue and conversational learning as it does from the resulting formal statement.

New leaders can employ several different ways to develop integrative vision and value statements. Some are conduct free-standing, self-contained processes. Others can integrate the identification and articulation of values into the development of a vision statement as an early part of the ethical turnaround planning processes. In either case, the process is designed so

new leaders can create a statement of values and vision that key stakeholders will agree should guide the future decisions and actions of employees and the organization. A high level of buy-in is essential for these statements to become guides for action. An important benefit of building the values and vision element into the front end of the ethical turnaround process (and beyond) is that the agreed-upon values are much more likely to be reflected in the resulting plan's goals and strategies. This is a useful level of integration by itself.

Design for vision and values processes available to new leaders range from closed discussion among a small group of senior leaders and board members to high-involvement, organization-wide approach that involves representatives of all key stakeholders. Some organizations involve all employees, professionals, and consumers in the process on the premise that involvement leads to a stronger understanding shared among all who participate and whose buy-in is critical to the success of an ethical turnaround. Typically, vision and values statements will be generated via a facilitated group dialogue in a retreat or workshop held off the premises at a location that limits intrusions. It also may be combined with team-building activities designed to help people work together more effectively. To the extent that less-inclusive approaches are used, new leaders should understand that more resources must later be allocated to communication and related activities to ensure that employees learn and begin to apply the vision and values of the organization. However, since the process of reflection and reconciliation of personal and organizational values and ethics is essential to a meaningful process, it often is most effective for new leaders to create opportunities for greater organization-wide involvement at earlier stages (Chapter 3 discusses the importance of employee involvement in ethical turnarounds). The design of the process is important because it models and communicates organizational values important to creating and sustaining a culture of character which should be the real outcome of an ethical turnaround.

The vision and values statement process is important for new leaders committed to creating a culture of character (and institutionalizing and sustaining an ethical work environment) because it focuses attention, facilitates shared understanding, and provides a basis for assessing future ethical performance. Yet, the shared understanding achieved by the development of mission, vision, and values statements is limited and its utility wanes quickly unless new leaders ensure vehicles exist to encourage, structure, and help employees to apply these values and ethics. Communication and learning, organizational structures, and monitoring and feedback loops all help to create and sustain a culture of character that encourages people to apply these values to their plans, decisions, or actions.

Transparency, Communication, and Learning Strategies

The process of developing a culture of character has a greater chance of being advanced by new leaders in an ethical turnaround if they are committed to transparency. In addition, there must be a commitment to using multiple communication and learning strategies.

Transparency by new leaders should be the rule not the exception today and tomorrow. Transparency is critical to restoring trust, building, institutionalizing, and sustaining an ethical or culture of character. Transparency refers to a quality, characteristic, or state in which activities, processes, practices, and decisions that takes place in organizations become open or visible to the outside world. A common definition of transparency is the degree to which an organization

- provides public access to information;
- accepts responsibility for its actions;
- makes decisions more openly; and
- establishes incentives for leaders to uphold these standards.⁵²

The opposite of transparency is opacity, or an opaque condition in which activities and practices remain obscure or hidden from outside scrutiny and review.

Pressures for transparency in the aftermath of an ethical scandal comes both from the outside and within organizations. From the outside, various stakeholders such as consumers, environmentalists, government, and investors want to know more clearly what is going on with the organizations and expect new leaders to provide such information. Additionally, the Sarbanes–Oxley Act mandates greater transparency. Transparency leads to accountability. From the inside, new leaders must understand how transparency makes sense as an ethics best practice.

An example of the benefits of transparency is that of Chiquita Brands International, which was exposed for a variety of questionable practices such as use of pesticides despite an environmental agreement, secret control over dozens of supposedly independent banana companies, bribery, and lax security that resulted in the use of company boats to smuggle drugs. Chiquita's reaction to this exposure was to turn the company around through a policy of corporate transparency, especially visible in its corporate social responsibility report. The report began to explain the results of external audits and employee surveys, and it helped the company get through bankruptcy proceedings and regain public trust.⁵³ Transparency,

like ethical behavior, starts at the top when a new leader takes charge following an ethical scandal.

The focus of communication and learning strategies introduced by new leaders is to help employees to understand, internalize, and act upon the vision and values of the organization. Research on the diffusion of innovations in organizations generally identifies four types of stages in the process by which employees of an organization adopt a new perspective:⁵⁴

- awareness,
- trial and experimentation,
- adoption, and
- institutionalization.

Since later stages are achieved by progressing through prior stages, new leaders will focus on the creation of learning processes that enable employees to work together to move through these stages. Communication and learning are especially important through the first two stages, since these become the basis for the employee's decision to adopt new concepts. New leader's goals should be to encourage employees to move beyond their "espoused theory," in which they voice but do not act on the principles they espouse, to achieve the level of "theory-in-use," action in which they behave consistently with the ethical standards they espouse.⁵⁵

Adult learning studies indicate that to support learning, any system will have to offer opportunities for experiential learning, coupled with opportunities for observation and reflection on the experiences.⁵⁶ Different approaches are appropriate to each stage. For example, at the awareness-building stage some organizations have mission/vision/values statements printed on plaques and placed in prominent locations throughout their workplaces. Many also conduct introductory training or orientations as part of their ethics education efforts as discussed in Chapter 7. The most successful of these engage employees' interest by using multiple media and involving various communication vehicles, coupled with employee opportunities for inquiry and introductory dialogue.

At the trial and experimentation stage, new leaders can combine many approaches to encourage learning and a shared understanding of the vision, values, and ethical standards of behavior and decision-making for the organization. For example, case studies and role-playing exercises offer opportunities for dialogue, conversational learning, ethical decision-making practice, and interaction. New leaders can also create or assign teams to engage in projects to apply or refine the mission, vision, and values statements for various departments (e.g., values statements for the purchasing or sales

department) as part of an ethical turnaround. There are also exercises like integrity or character audits available to support individual-level values clarification, as well, but they will be of greatest value when new leaders ensure that the learning from these experiences are linked with organization-level clarification and dialogue.

To achieve the desired impact, new leaders should make sure these learning situations are designed to encourage employees to examine their experiences and reflect upon the implications for their work and roles. These are essential elements for this is where some of the most sophisticated learning will occur. It is essential that new leaders encourage connections with organizational-level issues and systems as part of the ethical turnaround effort.

Create and Sustain Structures That Support Ethical Inquiry and Action

New leaders must also create and refine a set of structures to support the culture of character resulting from the ethical turnaround. One common structure, is the ethics (and compliance) committee. Regardless of the structures used it is important that new leaders link the structures with the ethics committee and be clear about the purview of each and not to blur lines of responsibility and accountability.

New leaders should also make sure that structures exist at each level of the organization to serve as forums and vehicles for addressing ethics issues and policies. For example, at the board level, a committee or similar entity must be responsible for the ethical infrastructure of the organization and its performance. There also should be senior leadership structures or roles that focus specifically on organizational ethics.

An organizational ethics focus can be promoted by new leaders through the designation of a formal “champion” among the senior leadership of the organization. These champions as mentioned earlier are typically in the position of the CEO. The more new leaders ensure that such positions are institutionalized and permanent, the greater likelihood that organizational members will take seriously its commitment to fully implement an ethical turnaround, organizational ethics, and a culture of character.

Structures may be more temporary and issue-oriented. Some organizations have created task forces or short-term ethical issues committees to examine specific ethical dilemmas and develop recommendations. In addition to addressing ethical matters or risks identified by new leaders (or the board), they can also examine issues identified in surveys of employees or

other key stakeholders. New leaders can also create and sponsor surveys of the community and other key stakeholders to assess the organization's ethical standing or reputation. These surveys can be conducted by an organization's public affairs or corporate philanthropy unit.

New leaders can also conduct and publish the results of social audits to complement their financial reports. Where the issues involve complex organizational policy issues, separate cross-functional task forces may be convened to analyze issues and develop proposals that can go to senior leadership or the board for review and action. New leaders should also make sure committees and task forces are facilitated and staffed and not controlled or dominated by leadership. Nonetheless, they must have a clear purpose (specified by the new leaders and others, like the board) and a clear way to feed their recommendations into the formal decision systems of the organization.⁵⁷

New leaders must also recognize that there is a distinction between using temporary structures for proactive policy/procedure analysis and planning purposes versus waiting and being forced to be reactive after problems arise to convene a problem-solving group. The fact is that senior leadership's options for managing or resolving an ethical issue will be fewer if an issue is allowed to reach urgent or crisis proportions and especially given the reality that the organization is trying to recover from an ethical scandal.

It is important for new leaders to link the ethical infrastructure with the other organizational structures whose functions overlap with the ethics and operational decision issues. For example, it will be important to integrate with the systems and standards developed and monitored as part of a continuous quality improvement or (CQI) or total quality management (TQM) or customer relations management (CRM) system during the ethical turnaround. The values and ethical standards of the organization are a critical basis for defining quality or customer relations, and the quality customer relations assurance systems of the organization will be most effective when linked with the organization's ethical infrastructure. Implicitly, they should already embody organizational values—but the organizational question new leaders must be able to answer is whether the vision, values, and ethics are aligned with those of such systems as quality of products and customer interactions or relationships.

An organization's performance management system (PMS; e.g., semi- or annual performance communication and appraisal processes of employees—to include promotions) is another important structure new leaders can leverage as part of the implementation of an ethical turnaround to create and sustain an ethical infrastructure in a culture of character. This is one

system whose design is explicitly focused in most organizations to reward and shape behavior, and any other infrastructure that deserves recognition must have input into the agreed upon PMS. The PMS will have its own unique and pervasive influences on the organization, especially if it is linked to employee's compensation. The performance management and ethics systems must be integrated for the ethical culture and infrastructure to have the greatest impact in regularly reinforcing behaviors of organizational members. The organization's values will have a better chance of guiding employee's decisions and behaviors if they are incorporated into the PMS.

These structures will support an ongoing dialogue and conversational learning (discussed in Chapter 6) that will position the organization and its members to respond effectively to the complex and challenging ethical situations and dilemmas better in the future than they did before the ethical scandal. Nonetheless, a final element is essential for new leaders who are committed to building and sustaining a culture of character.

An important part of a successful ethical turnaround and a culture of character is the need for new leaders to invest in developing employee's ethical decision-making skills and the strategic integration of an ethical decision-making framework that can serve as a guide for employee decisions when confronted with ethical issues, dilemmas, or situations. Ethics education focused on improving employee's decision-making skills is an important part of any new leaders' efforts to implement an ethical turnaround. Further, the integration of an ethical decision-making framework must include institutionalized processes for monitoring, assessing, and providing feedback on the effectiveness of this infrastructure, especially at the senior leadership and board levels. Both improving employees' decision-making skills and an integrated ethical decision-making framework must be a top priority for new leaders if they are going to have any success in changing an unethical culture to an ethical one.

Developing Processes to Monitor and Evaluate Ethical Organization Performance

Any organization that aspires to be successful understands the need to go beyond building an infrastructure and articulating vision, values, and strategic goals. Their leaders recognize the need to create monitoring and feedback systems to assess how well the organization is doing. This information identifies strengths and shortcomings (or opportunities for improvement) and becomes the basis for refining internal systems to strengthen ethical performance. This process is especially significant for new leaders in

their ethical turnaround efforts and to prevent any future ethical missteps or scandals.

With the increased pressures from laws like Sarbanes–Oxley, Dodd-Frank and other government legislation along with calls for increased hyper-transparency means that new leaders and their organizations have to continuously monitor and evaluate their ethical performance in several ways. These efforts must be grounded in a core understanding: New (and all levels of) leaders must know the results the organization seeks in order to assess how well it is doing. Coming to a consensus on the benchmarks and standards for ethical performance and how the organization will be judged is critical if new leaders are to have a fair and productive feedback process. New leaders need to make sure monitoring and evaluation strategies are built into the elements of the ethical infrastructure from the outset of the ethical turnaround effort. This means that they must spend time talking about what success looks like for an ethical infrastructure that supports a culture of character.

There are several approaches new leaders can use to help monitor and assess ethical performance. Some overlap into other areas. For example, gaining customer feedback from customer research (e.g., surveys, focus groups) often is available and useful. Like any data or information that is collected its interpretation, however, should be handled by those responsible for monitoring ethical performance, since the frame of reference guiding the analysis should be different from that of those who collected the data.

Other strategies are more specialized. Ethics audits and integrity audits assess whether the organization has lived up to its ethical standards and behaved consistent with its vision and values.⁵⁸ Such reviews may be the work of internal senior leaders or employees, unit-level or cross-functional employee teams, external analysts, or members of the board of directors. They may be freestanding or part of a long-term initiative to assess ethical performance from multiple perspectives. Six steps to highly effective ethics audits that new leaders should be aware of are:⁵⁹

1. *Start with a detailed foundation.* An ethics audit is a comparison between actual employee behavior and the guidance for employee behavior provided in policies and procedures. The more descriptive and specific ethics-related policies and procedures are, the easier it is to make these comparisons.
2. *Develop metrics.* Ethics audits may not be as black-and-white as financial or operational audits, but they run more smoothly when tangible ethics measures are in place. Consider adding ethics goals

- to annual performance reviews and, where possible, tying compensation to ethical behavior.
3. *Create a cross-functional team.* Include a human resource management (HRM) professional familiar with people in the business unit being audited. Most ethics audit teams include an ethics and compliance manager where possible as well as an internal auditor and legal managers.
 4. *Audit efficiently.* Audits frequently disrupt normal operations in business areas subjected to review. Before scheduling an audit, find out if internal auditors or the finance team may be conducting reviews of the same area. If so, combine these efforts to limit disruptions. Once the audit has been scheduled, create a plan that spells out employees to be interviewed, information that requires review and any processes that require observation.
 5. *Look for other issues.* Keep an eye out for other improvement opportunities, and share those with relevant colleagues. For example, ethics issues in a sales area may have revenue-recognition implications from a financial reporting perspective.
 6. *Respond consistently and communicate.* Discipline ethics violations in complete accord with policies and procedures and the code of conduct every time. Also, use ethics issues, when possible, as grist for “lessons learned” in ethics-related communications and training or education.

The assessment also should be clear at the outset as to whether it will examine processes, outcomes, or both. Since specific outcomes of ethical decision-making often cannot be specified, especially at the organization-level it is essential that all involved in the process develop a shared understanding of what will be monitored, to what use the information will be put, and how much weight the information should carry. Typically, evaluations will need to examine whether the appropriate process has been used and whether all appropriate stakeholders were involved. This is not to suggest that outcomes cannot be identified as efforts, but they are less universally recognized than benchmarks set for financial performance, for example. They are more open to interpretation and, therefore, call for a higher level of clarity among the stakeholders of the evaluation and feedback process.⁶⁰

This feedback process is essential as an organizational learning and renewal strategy. If an organization’s ethical code and integrated decision-making framework are to remain viable, new leaders must make sure they are regularly reevaluated and refined based on feedback and input about how well they are working. In fact, once the information has been gathered and reported, it becomes part of the organization’s learning process,

using strategies such as the ones described in this section: communication, dialogue, conversational learning, and decision-making, supported by appropriate structures make for an ongoing culture of character.

In implementing the ethical turnaround, new leaders, boards of directors and other senior leaders must provide strong ethical or values-based leadership. They need to understand that it is not enough for an organization to profess a code of conduct. The most important thing that new leaders and a board of directors can do is determine the elements that must be embedded in the organization's moral or ethical DNA, post-ethical scandal and turnaround. In other words, strong leadership by new leaders and from the board and leaders at all levels of the organization will continue to be the most powerful force in successfully implementing an ethical turnaround (i.e., building, institutionalizing, and sustaining an organization's ethical culture or for our purposes a culture of character).

Every Employee an Ethical Employee and Ethical Leader

Perhaps one of the most important things new leaders can do as part of an ethical turnaround is to set the expectation of every employee being an ethical employee: That is, every employee must understand that they should be an ethical employee and accept the reality that while they will most likely witness questionable or even blatantly unethical conduct at work, at some point, they are expected to do or say something about it. New leaders need to make ethical performance expectations clear and this means every employee has an obligation not to make excuses like the following for not confronting unethical conduct: "This is common practice, the incident is minor, it's not my responsibility to confront such issues, and loyal employees don't confront each other." While such rationalizations for not confronting unethical conduct are common, new leaders must see that employees recognize they have consequences for those within and outside of the organization. As part of developing employee's decision-making skills and the integration of an ethical decision-making framework new leaders can encourage employees to consider the following suggestions on what they can do when they witness questionable or even blatantly unethical acts in their organizations:

1. *It's business; treat it that way.* Ethical issues are business issues, just like costs, revenues, and employee development. Therefore, collect data and present a convincing argument against the unethical actions just as you would to develop a product or strategy.

2. *Accept that confronting ethical concerns is part of your job.* Whether it is explicit in your job description or not, ethics is everybody's job. If you think something is questionable, then take action.
3. *Challenge the rationale.* Many issues occur despite actual policy against it. If this is the case, then ask: "If what you did is common practice or okay, they why do we have a policy forbidding it?" Alternatively, and no matter the rationale, you can ask: "Would you be willing to explain what you did and why in a meeting with our superiors or customers, or, better still, during an interview on the evening news?"
4. *Use lack of seniority or status as an asset.* While many employees unfortunately use their junior status to avoid confronting ethical issues, being junior can instead be an advantage. It enables you to raise issues by saying, "Because I'm new, I may have misunderstood something, but it seems to me that what you've done is out of bounds or could cause problems."
5. *Consider and explain long-term consequences.* Of course, many ethical issues are driven by temptations and benefits in the short term. It therefore can be helpful to frame and explain your views in terms of long-term consequences.
6. *Solutions—not just complaints.* When confronting an issue, you will likely be perceived as more helpful and taken more seriously if you provide an alternative course or solution. Doing so will also make it more difficult for the offender to disregard your complaint.⁶¹

Every Employee an Ethical Leader

It is important for new leaders to not only set an example of being an ethical leader as part of an ethical turnaround but they should also expect all employees to embrace the practices of ethical leadership in their day-to-day work activities. Ethical leadership is something that can be taught and learned and should be part of any new leader's ethical turnaround effort. So what can new leaders do to help employees become ethical leaders? The following three approaches can get them going in the right direction:

- *Build ethical muscles.* This means taking and making the time for employees to practice and get better at dealing with ethical situations or dilemmas. Ethics has to be thought about in this way. Aristotle proposed that ethics were a skill and researchers are finding that ethics can be viewed as an area of expertise.⁶² So new leaders and their organizations should set specific goals for employee's development to actually grow and be better at being an ethical leader.

- *Build and maintain ethical support tools.* Given all the different elements competing for the attention of employees during an ethical turnaround each day at work, it helps to develop some simple tools to keep their ethical compass on track. For example developing an ethical mantra—like “What would my children/parents think if they saw me engage in this behavior?”—“Would I be comfortable if this was on the front page of the *Wall Street Journal*?” or “Do only what you’re prepared to tell”—can keep employees’ (and other organizational members’) values top of mind.
- *Walk the talk.* It’s not enough to just talk about one’s values or personal code of ethics. While most companies have these tools, it seems they’re generally not a good predictor of ethical behavior unless there is some type of action that demonstrates an employee is living in line with the words the organization is espousing. This is why it’s critical for a new leader to expect all employees to be able to raise awareness about how the decisions they’re making fit with the organization’s vision, strategy, mission, ethics, and values. It’s also important to remember that employees should have their antennas up for potential ethical risk or misconduct and be expected to advocate for values like respect, trust, fairness, and integrity and call out individuals who are disrespectful or dishonest high performers or who will do anything to damage people’s levels of trust or commit unethical acts.

Address Differences in Ethical Standards in Global Business

Today, doing business in the global arena is much more challenging. Additionally, ethical decision-making can be more challenging for global businesses than local operations and this is an important point that new leaders should emphasize during an ethical turnaround. Culture-driven codes of ethics vary between countries, making it difficult for employees to adhere to a strict code of ethics in each market. The textbook ethical dilemma for global businesspeople occurs when an employee must decide whether to commit an act that is unacceptable in the home country, but expected and necessary in the host country. Because of this, new leaders who work for global businesses that are undergoing an ethical turnaround must make sure their employees know how to address differences in ethical standards around the world. The following steps should be helpful:

Step 1: Keep the unique ethical culture of each market in mind when crafting the organization's code of ethics to ensure that it is relevant to the global arena. Make adherence to the code a priority among all levels of leadership to set an example for the rest of the organization. Post the code of ethics in high-traffic areas at the home office, branch offices, and foreign subsidiaries. Expect all leaders and other organizational members to justify their ethical decisions in foreign markets according to the code of ethics to ensure that they take it seriously. Employees from local countries should be included in the process of creating the organization's ethics program. This will help to make the ethics programs as relevant as possible in foreign markets.

Step 2: Local customs where appropriate should be followed. That is, decide on a case-by-case basis which local customs to follow and which to avoid when it comes to victimless issues. The organization's code of ethics should be used as a guide when dealing with humanitarian and environmental issues, such as child labor or deforestation, and employees should not be left to use their own discretion in issues such as bribery or wage considerations. Employees should not for example, be able to decide to offer cash gifts to government officials in a country where there is no other reasonable way to gain a foothold in the market. Additionally, there should be no hesitation in deciding not to enter a country if raw materials must be gained through suppliers who use indentured labor.

Step 3: The organization's standards should be applied equally in all markets, and among all subsidiaries. Always stick to the organization's standards. If the organization has a policy of following its home country's ethical standards around the world it must be prepared to turn down opportunities in markets with unfavorable ethical climates. Respond courteously and respectfully if you do have to turn down an opportunity. Leaders should make sure all employees understand the organization's commitment to ethical standards.

Step 4: Company-wide ethics education should be mandatory and a regular activity, in addition to administering comprehensive ethics education/training and compliance programs for new hires. Training and education efforts should be used to highlight actual areas of concern in the organization, citing specific examples as often as possible.

Conclusion

This chapter has offered an initial look at turnarounds and new broom leaders and ethical turnaround models. Additionally, the chapter discussed the importance of creating and maintaining cultures for open communication and voicing moral concerns.

Chapter 2 takes a look at groupthink and various forms of ethical or moral silence and how they might contribute to unethical behavior in organizations. The basic premise of the chapter is that with an understanding of groupthink, various forms of moral silence, and unethical behavior new leaders are in a better position to determine the extent to which they exist in the organization and contributed to the ethical scandal.

Chapter 3 discusses the new leader's role and employee involvement in shaping organizational culture in implementing a successful ethical turnaround. The chapter highlights the importance of rethinking the focus of organizational change efforts, misconceptions of employee involvement, and describes characteristics of high involvement organizations (HIOs) and the important role employees can play in helping new leaders to understand an organization's culture following an ethical scandal. The chapter also discusses how new leaders can better identify, prevent, and minimize resistance to ethical turnarounds before describing several strategies new leaders can take to smooth the change process and ease their own and employee's pain during an ethical turnaround.

Chapter 4 takes an initial look at the actions of new leaders in undertaking ethical turnarounds. A framework for ethical turnarounds is discussed in detail along with a brief look at some examples of ethical turnarounds and their implications for what new leaders can learn about ethical turnaround efforts.

Chapter 5 first takes a more detailed look at various efforts of new leaders to implement an ethical turnaround. Based on the examples of new leader's ethical turnaround efforts the chapter then provides an answer to the question of "What new leaders really need to do to successfully implement an ethical turnaround?"

Chapter 6 is intended to move the discussion beyond a new leader's ethical turnaround effort to avoiding future ethical scandals by proactively countering groupthink, moral silence, and unethical behavior. The chapter argues that encouraging moral discourse, voicing moral concerns, dialogue, good moral conversation, and conversational learning can be used by leaders to create an environment or culture to counter unethical behavior. The chapter then discusses the implications for senior leaders in creating

a culture of open discussion and conversation among employees around moral or ethical situations, issues, and dilemmas in their organizations. The final section of the chapter takes an in-depth look at an integration strategy for ethical making new-old leaders can introduce into their organizations which can serve as a framework to help employees understand and analyze the moral or ethical dimensions of a given situation

Chapter 7 discusses the critical role that ethics education can play in new leader's efforts to institutionalize and sustain ethics in organizations. A basic premise of this chapter is that you can teach people to not just comply but to be ethical and ethics education based on clear objective measures is essential to proactively establishing an ethical organizational culture and guide for ethical behavior across the organization. The chapter concludes with a discussion of some of the lessons learned in providing and evaluating ethics education to various organizations.

Chapter 8 discusses the efforts of new leaders to rebuild their organization's reputation following an ethical scandal and turnaround as part of a proactive effort to sustain ethics in the organization. The chapter first defines reputation and reputation management before highlighting the importance of new leaders being proactive in institutionalizing and sustaining ethics. Next, the chapter revisits the relationship between ethical behavior and organizational culture and then turns to efforts to respond to damaged reputation to include organizational reputation management routines and introduces a framework which advocates a short- and long-term approach to sustaining reputation. The chapter concludes with a look at the importance of new leaders ensuring that their organizations are never put in the position where they must be "reactive" and rebuild their reputation.

Chapter 9 discusses various strategies that new leaders can use to create and sustain ethically oriented work environment following the implementation of an ethical turnaround. The chapter also discusses the need for new leaders to integrate ethical decision-making in the organization, create a culture that encourages whistle-blowing, and be proactive in structuring an ethical enforcement system with an accompanying process for investigating whistle-blower complaints. The chapter also highlights the importance of new leaders developing their ability and competencies as change agents if they are going to increase the likely success of sustaining an ethical work environment and culture post ethical scandal and turnaround. The final section discusses how new and now old leaders can avoid future ethical scandals and the need for an ethical turnaround.

Notes

1. B. Nussbaum, Can You Trust Anybody Anymore? *Business Week*, January 28, 2002, 31–32.
2. D. Lyman (Ed.). *The Moral Sayings of Publius Syrus, a Roman Slave*. Cleveland, OH: L.E. Barnard & Company, 1856.
3. Ibid.
4. See D. Brown, Reputation Damage and Tone at the Top: Uber Scandal Underscores How Corporate Culture can Bring a Company to its Knees, December 3, 2014, Retrieved from <https://michiganross.umich.edu/rtia-articles/fifa-scandal-ethics-cost-and-relativism>; D. Mayer & C. Schipani, The FIFA Scandal—Ethics, Cost, and Relativism, May 29, 2015, Retrieved from <https://michiganross.umich.edu/rtia-articles/fifa-scandal-ethics-cost-and-relativism>; B. George, Are Corporate Ethics Sliding Again? Retrieved from <http://www.cnbc.com/2015/09/15/>; J. Thompson, Despite the Recent Scandals, “Business Ethics” Isn’t a Contradiction in Terms, October 4, 2015, Retrieved from <http://www.abc.net.au/news/2015-10-05/thompson-business-ethics-isn't-a-contradiction-in-terms/6827488>; C. Seaquist, Corporate “Talent” Must Imagine Worst-Case Scenario, i.e., Ruination: VW, GM, Peanut Corporation, October 17, 2015, Retrieved from http://www.huffingtonpost.com/carla-seaquist/corporate-talent-must-ima_b_8392598.html; D.Yakowicz, The Most Outrageous Business Scandals of 2015, December 23, 2015, Retrieved from: <http://www.inc.com/will-yakowicz/biggest-big-business-fails-of-2015.html>
5. C. Boddy, Corporate Psychopaths, Bullying, and Unfair Supervision in the Workplace, *Journal of Business Ethics*, 100(30), 367–379, 2011.
6. S.M. Puffer & D.J. McCarthy, Ethical Turnarounds and Transformational Leadership: A Global Imperative for Corporate Social Responsibility, *Thunderbird International Business Review*, 50(5), 303–314, 2008.
7. M. Uhl-Bien & M.K. Carsten, Being Ethical When the Boss Is Not, *Organizational Dynamics*, 36(2), 187–201, 2007; R.R. Sims & W.I. Sauser, Jr., Countering Moral Muteness through Dialogue, Good Moral Conversation, and Conversational Learning. *The Business Review, Cambridge*, 23(1), 9–17, 2015.
8. Op. cit., Puffer & McCarthy, 2008; A. Stark, The Management of a Turnaround after an Ethical Breach in a Public Institution of Higher Education, 2015, Retrieved from <http://digitalcommons.georgefox.edu/dbadmin/3/>
9. Op. cit., Boddy, 2009
10. See C.O. O'Reilly & S. Puffer, The Impact of Rewards and Punishments in a Social Context: A Laboratory and Field Experiment, *Journal of Occupational Psychology*, 62(1), 41–53. 1989; J. Barling & M. Phillips, Interactional, Formal, and Distributive Justice in the Workplace: An Exploratory Study, *The Journal of Psychology*, 127(6), 649–656, 1993; K.L. Pelletier & M.C. Bligh, The Aftermath of Organizational Corruption: Employee Attributions and Emotional Reactions, *Journal of Business Ethics*, 80(4), 823–844, 2008; P.M. Bal, D.S. Chiabru & P.G.W. Jansen, Psychological Contract Breach and Work Performance: Is Social Exchange a Buffer or an Intensifier? *Journal of Managerial Psychology*, 25(3), 252–273, 2010.

11. R.M. Kanter, Leadership and the Psychology of Turnarounds, *Harvard Business Review*, 81(6), 56–67, 2003.
12. Op. cit., Kanter, 2003.
13. Ibid.
14. R.M. Kanter, *Confidence: How Winning and Losing Streaks Begin and End*. New York, NY: Crown Business, 2004.
15. S. Toor & G. Ofori, Ethical Leadership: Examining the Relationships with Full Range Leadership Model, Employee Outcomes, and Organizational Culture, *Journal of Business Ethics*, 90(4), 533–547, 2009.
16. C.W. Hofer, Turnaround Strategies, *Journal of Business Strategy*, 1(1), 19–31, 1980.
17. Genesis 41:41–43 English Standard Version, Retrieved from <https://www.biblegateway.com/passage/?search=Genesis+41%3A41-43&version=ESV>
18. T. Jefferson, Jefferson's Opinion on the Constitutionality of the Bank, 1751, in H.S. Commager (Ed.), *Documents of American History*. (pp. 158–160). (New York, NY: Appleton-Century-Crofts, Inc., 1949).
19. T. Jefferson, Jefferson on the Importance of New Orleans, 1802. In H.S. Commager (Ed.), *Documents of American History*, (pp. 189–190). New York, NY: Appleton-Century-Crofts, Inc., 1949.
20. United States Conference of Catholic Bishops (UCCSB). *Charter for the Protection of Children and Young People*. Washington, DC: UCCSB, 2002/2011.
21. Op. cit., Hofer, 1980.
22. Op. cit., Kanter, 2003
23. R.R. Sims, Changing an Organization's Culture under New Leadership, *Journal of Business Ethics*, 25(1), 65–78, 2000; Op. cit., Sims & Sauser, 2015.
24. B. Schneider, A.P. Brief & R.A. Guzzo, Creating a Climate and Culture for Sustainable Organizational Change, *Organizational Dynamics*, 24(4), 6–19, 1996; Op. cit., Kanter, 2003.
25. Op. cit., Sims, 2000; Op. cit., Hofer, 1980
26. Op. cit., Kanter, 2003.
27. J. Gabarro, *The Dynamics of Taking Charge*. Boston, MA: Harvard Business School Press, 1987.
28. J. Gabarro, When a New Manager Takes Charge, *Harvard Business Review*, January 2007, Retrieved from <https://hbr.org/2007/01/when-a-new-manager-takes-charge>
29. Op. cit., Gabarro, 1987.
30. J. Gabarro, An excerpt from *The Dynamics of Taking Charge*, November 2008, Retrieved from www.emeraldgroupublishing.com/learning/.../gabarro_excerpt.pdf
31. K. Lewin, *Field Theory in Social Science; Selected Papers on Group Dynamics*, D. Cartwright (Ed.). New York,: Harper and Row, 1951
32. Ibid. E.H. Schein, *Organizational Culture and Leadership*. San Francisco, CA: Jossey-Bass. 1985.
33. M. Nisen, How Nike Solved Its Sweatshop Problem, Business Insider, May 9, 2013, Retrieved from <http://www.businessinsider.com/how-nike-solved-its-sweatshop-problem-2013-5>

34. D. Benady, Bruised But Not Broken, *Transform*, June 12, 2015, Retrieved from <http://www.transformmagazine.net/articles/2015/bruised-but-not-broken/>
35. Ibid.
36. Ibid.
37. Ibid.
38. R.R. Sims, The Institutionalization of Organizational Ethics, *Journal of Business Ethics*, 107(7), 493–506, 1991; Op. cit., Puffer & McCarthy, 2008; R.R. Sims, Toward a Better Understanding of Organizational Efforts to Rebuild Reputation Following an Ethical Scandal, *Journal of Business Ethics*, 90(4), 453–472, 2009.
39. Op. cit., Stark, 2015.
40. Op. cit., Hofer, 1980.
41. See Op. cit., Hofer, 1980; Op. Cit., Stark, 2015; Op. Cit., Sims, 2009
42. Op. cit., Puffer & McCarthy, 2008; L. Yuhao, The Case Analysis of the Scandal of Enron, *International Journal of Business & Management*, 5(10), 7–41, 2010; Op. cit., Sims and Sauser, 2015.
43. A. Montgomery, The Dearth of Ethics and the Death of Lehman Brothers, n.d., Retrieved from <http://sevenpillarsinstitute.org/case-studies/the-dearth-of-ethics-and-the-death-of-lehman-brothers>
44. See R.R. Sims & J. Brinkmann, Enron Ethics (Or: Culture Matters More than Codes, *Journal of Business Ethics*, 45(3), 243–256, 2003; Op. cit., Sims, 2000.
45. S. Kavanaugh, Paper Discusses the Role of a Chief Ethics and Compliance Officer, *Journal of Health Care Compliance*, 10(1), 25–75.
46. Ibid.
47. See, Op. cit., Sims, 2000; A. Meisler, Clean Slate (Cover Story), *Workforce Management*, 83(3), 26–33, 2004; M. Ackerman, Putnam CEO Discusses Plans for Turnaround (Cover Story), *American Banker*, 170(21), 1–11, 2005; N. Nohria, *Putnam Investments: Rebuilding the Culture*. Boston, MA: Harvard Business School Publishing, 2006; Op. cit., Sims, 2009
48. Op. cit., Sims, 2003, 2009
49. F.B. Bird, *The Muted Conscience: Moral Silence and the Practice of Ethics in Business*. London: Quorum Books, 1996; F.B. Bird & J.A. Waters, Moral Muteness. *California Management Review*, 32(1), 73–88, 1989.
50. D. Kahneman, *Thinking Fast and Slow*. New York, NY: Farr, Straus and Giroux, 2011.
51. See D.O. Renz & W.B. Eddy, Organizations, Ethics, and Health Care: Building an Ethics Infrastructure for a New Era, *Bioethics Forum*, 12(2), 29–39, 1996; J.L. Fernández & J. Camacho, Effective Elements to Establish Infrastructure: An Exploratory Study of SMEs in the Madrid Region, *Journal of Business Ethics* [Online], 138, 113–131, 2016.
52. Ethics Resource Center, National Business Ethics Survey 20–21, *Investopedia*, The Importance of Transparency, October 24, 2010, Retrieved from <http://www.investopedia.com/articles/fundamental/03/121703.asp#axzz2MhVHuZYp>
53. J. Brand, Book Review: The Naked Corporation, *Darwin Magazine*, May 4, 2004, Retrieved from <http://www.darwinmag.com/read/writeon/column.html>
54. See E.M. Rogers, *Diffusion of Innovations* (5th Ed.). New York, NY: Free Press, 2003; I. Sahin, Detailed Review of Rogers' Diffusion of Innovations Theory

- and Educational Technology-Related Studies on Rogers' Theory, *The Online Journal of Educational Technology*, 5(2), 14–23.
55. C. Argyris, *Knowledge for Action*. San Francisco, CA: Jossey-Bass, 199).
56. D. Schon, *The Reflective Practitioner*. New York, NY: Basic Books, 1983.
57. Op. cit., Rentz & Eddy, 1996.
58. See J. Bell-White & D. Wallace, *The Integrity Audit, Version 3*. (St. Paul, MI: College of St. Catherine); Op. cit., Rentz & Eddy, 1996; E. Krell, How to Conduct an Ethics Audit, April 1, 2010, Retrieved from https://www.shrm.org/hr-today/news/hr-magazine/pages/0410agenda_social.aspx
59. Op. cit., Krell, 2010
60. See M.Q. Patton, *Utilization-Focused Evaluation*. Newbury Park, CA: SAGE Publications, 1986; Op. cit., Rentz & Eddy, 1996.
61. M.C. Gentile, Keeping Your Colleagues Honest, *Harvard Business Review*, 88(2), 114–117, 2010.
62. M. Stichter, Ethical Expertise: The Skill Model of Virtue, *Ethical Theory and Practice*, 10(20), 183–194.