Handbook of Organizational and Managerial Wisdom

Organizational Ethics—Acting Wisely While Facing Ethical Dilemmas in Leadership

Jay Conger, Robert Hooijberg

SIDEBARS:
Dealing With Richard Millar
The Case for Absolute Quality

You have supervised the building of a water treatment plant in a South American country, the plant is ready, 300 people will be directly and indirectly employed as a consequence of the opening of the plant, and the only thing holding it up is the final approval of the secretary of utilities. Although all permits have been filed and all audits have been completed, he has yet to sign the official papers permitting the opening of the plant. It becomes clear that what really stands in the way of opening the plant is the appropriate payoff to the secretary of utilities. Although the laws of the land prohibit bribes, it does seem to be common practice in this country.

Although wisdom seems like a wonderful quality to have, its application J. is rarely straightforward given the complexities of most leadership decisions. In this chapter, we explore the challenges of applying wisdom and offer practical advice about acting wisely in the face of ethical dilemmas such as those mentioned in the opening vignette. Although leadership researchers exhort leaders to act wisely and ethically (e.g., Gardner, 1990; Rost, 1991; Turner, Barling, Epitropaki, Butcher, & Milner, 2002) and even see acting with moral purpose as an essential component of transformational leadership (e.g., Burns, 1978; Shamir, House, & Arthur, 1993), leaders in organizations face dilemmas where wise and morally correct solutions do not readily present themselves. This is especially true under the social entity model of the organization—where multiple stakeholders are considered—but is also true under today's shareholder model.

In this chapter, we explore how existing frameworks of wisdom can provide assistance to “ordinary” leaders in solving the real-life ethical dilemmas they face. Take the case of the leader in the opening vignette. What is the wise course of action for him? Should he just say *no* to providing bribes? Although this is a principled statement, it also means that many people will not get paid and many others will not get water. On the other hand, if he does provide a bribe, he could get himself and his company in trouble for violating the laws of his home country. Which of these two possible solutions has a higher ethical value? Although this case may seem extreme to some, it seems familiar to many others. It certainly seems familiar to readers in the sense that every year leaders face ethical dilemmas to which there are no easy answers and no obvious wise decisions.

In this chapter, we offer a definition of wisdom along with practical guidelines for acting wisely in the face of ethical dilemmas. We begin by adapting Sternberg's definition of wisdom to leadership contexts by focusing on its enhancement of an organization's viability over time. We then apply our adapted definition to two case studies. These cases illustrate the complexity of ethical dilemmas and the role of wisdom in making the “right” decision. Throughout the chapter, we draw attention to the fact that individual leaders will find it difficult to find wise solutions for many of the ethical dilemmas they face. Although we do not have easy recipes to assist individual leaders in finding wise solutions, we do provide individual and organizational guidelines that can enhance the percentage of wise decisions leaders make in the face of ethical dilemmas.

What Is Wisdom in Leadership?

One of the great challenges in applying the term *wisdom* to leadership is simply the wide variety of perspectives and therefore definitions of the term. Wisdom is multidimensional and situational. In *Wisdom: Its Nature,* *Origins, and Development* (Sternberg, 1990), a group of psychologists illustrated the sheer variety of perspectives for thinking about wisdom and its sources. For example, Orwell and Perlmutter (1990) suggested that wise individuals not only are smart but also have a highly developed personality structure. Their personality enables them to transcend narcissistic personal needs, thoughts, and feelings and to reach a level of constructive detachment. At the same time, wise individuals are empathic, exceptionally understanding, and open to change. In contrast to this personality perspective, Arlin (1990) offered another frame on wisdom. For Arlin, wisdom is "the art of problem finding." He suggested that we cannot understand wisdom simply by looking at the results of specific decisions or solutions; rather, to reach wise decisions, we must first formulate the right questions to ask in any important decision. Other authors from Sternberg's (1990) edited volume suggested that personality and decision-making approaches in themselves are not enough to create wisdom; rather, context is a critical variable that determines whether or not to qualify actions or decisions as wise. For example, Meacham (1990) pointed out that many life experiences (including overaccumulation of information, success, and power) or climates (such as today's atmosphere of rapid technological and cultural change) can be extremely threatening and damaging to wisdom. Only a "wisdom atmosphere of supportive interpersonal relations" caters to building the personal strength necessary to "engage in confident and wise action even when in situations of doubt." In other words, for wisdom to be present, it is not enough to have the right disposition or proper processes for decision making. Wisdom is the product of an environment promoting wise actions.

This array of perspectives highlights the multiple dimensions of wisdom. It is truly multifaceted and multileveled. There is the individual decision maker. His or her personality and experience play a critical role in wisdom. It is difficult to imagine a power-hungry and highly narcissistic individual making wise decisions. It is also hard to imagine someone acting wisely without a depth of appropriate experiences on which to draw. But having the "right" personality and base of experience is not enough. The individual must also rely on sophisticated and objective processes of decision making. For example, a wise decision is made by asking the right kinds of questions, involving knowledgeable others, seeking a genuine breadth of perspectives on the issue, sourcing rich and reliable information pertinent to the decision, considering both the means and the ends, and weighing in a balanced fashion the interests and concerns of the multiple constituencies involved in the decision. Finally, it is difficult to act wisely in an environment that is highly discouraging of wisdom. An organization's leaders, rewards, processes, and culture must promote and reward wise decisions. Therefore, wisdom is the outcome of personality, experience, decision-making processes, and a highly supportive organizational environment.

Given these sources of, and contributors to, wisdom, how might we best define wisdom in a leadership situation? We prefer Sternberg's notion of wisdom. According to Sternberg (2005), people are wise to the extent that they use their intelligence and experience to seek a common good over both the short and long terms. They do so by balancing their own interests with those of other people and those of larger entities (e.g., family, community, nation). Wise people are also perceptive and highly adaptive. They can adapt to new environments, change their environments, or select new environments to achieve positive outcomes for multiple constituencies. Ideally, they are able to detach themselves from the influence of environments or climates that are not supportive of making wise decisions.

In the leadership world, therefore, wise decisions are those that are made carefully with a breadth of information and perspective and with great consideration of the multiple constituencies influenced by the decisions. Their aim is always to enhance the viability of their organization over time—a viability shaped and determined by multiple stakeholders. The ultimate proof of a wise decision, therefore, is that it enhances the long-term viability of an organization and also balances effectively and positively the needs of the fullest possible range of stakeholders. In many cases, however, this may mean that wisdom results in constructive compromises rather than clear and clean ethical solutions given that stakeholders themselves may hold widely diverging stances on a single issue.

That said, wisdom is more easily defined than implemented in organizations given the multitude of ethical dilemmas they face. With an increasing emphasis on both short- and long-term goals, and with a growing number of active and vocal stakeholders, making wise leadership decisions has become far more difficult. For example, how does a leader balance short-and long-term interests, especially when, at an individual level, not achieving short-term targets can make meeting long-term targets irrelevant? How much self-interest can a leader afford? Is it wise for leaders to make a decision that is beneficial for the organization but detrimental to their own careers? How and when do leaders balance the need for cost-cutting with long-standing commitments to their workforce?

The academic literatures on leadership, ethics, and wisdom offer practicing leaders few truly useful tools to answer thorny questions such as these. Most of the tools and competencies of wisdom provided by researchers on the topic tend to be generic. For example, Bluck and Gluck (2005), Weick (1998), and Bigelow (1992) together offered the following set of critical elements for making wise leadership decisions (all of which are personal dimensions):

- Cognitive ability (e.g., intelligence, a rich store of relevant knowledge, expertise in the domain of the issue at hand)
- Insight (e.g., reasoning and problem-solving ability, cognitive meta-control, an understanding of systemic relationships)
- An adequate understanding of the limits to one's knowledge
- Reflective attitude (e.g., learning from insights, learning from mistakes)
- Concern for others (e.g., understanding, fair, open to learning from others)
- Real-world skills (e.g., communications, judgment, problem-solving skills)
- Appropriate values

Although we can see the utility of these types of knowledge, skills, abilities, and values, they still beg the question of how to apply them to real-life situations. For example, concern for others could lead to the deployment of organizational resources to retain employees longer than economic conditions warrant. This could result in even more individuals losing their jobs than would have occurred if a leader had taken action more swiftly. This is a common trade-off that leaders face. The trade-off, however, becomes more difficult to judge if we change the variables slightly. What if a manager believes that his or her business has hit a temporary slump and that economic conditions will pick up soon? If the manager lays off staff and the economy picks up, will he or she have the ability to rehire quickly enough? This raises issues regarding the manager's confidence about future events and the amount of risk taking with which he or she feels comfortable. Although Weick (1998) indicated correctly that both overconfidence and overcautiousness can lead to bad decision making, he did not provide a clear handle on how to find the right balance between confidence and caution. These are some of the challenges of applying the research on wisdom to acting wisely in a leadership setting.

Real-Life Leadership Problems and Wisdom

To make the discussion and potential learning more tangible, we examine two concrete cases where the focal leaders face ethical dilemmas. We invite the reader to examine the cases and to think about what our preceding discussion would lead the reader to do in these situations.

Looking at this case, what action should Olson take? Given the severity of the problem and its impact on the organization's reputation, as well as on Olson's reputation, it is critical that Olson make a wise decision in this case. Leadership scholar Burns (1978) argued that transformational leaders do not water down their values and moral ideals. However, Olson faces a difficult ethical dilemma where we cannot clearly see what values and moral ideals she should uphold. Should the ethical solution focus on punishing the supposed sexual harasser? Should the ethical solution focus on saving the hospital from potential financial ruin? Should the ethical solution focus on Olson's personal values and principles? If Olson followed Burns's advice, what would that mean for her own career? What implications would that have for the employees of the hospital and the community in which it operates?

When we share this case in executive education classes, many participants feel that Millar should be fired. Others feel that concrete evidence does not exist and, therefore, that further due process and research into the legalities of the situation need to take place before further steps can be taken.

After extensive discussions with the board and the accuser, Olson ultimately wrote a letter of resignation for Millar. She and the board chairman called in Millar and told him that they wanted him to sign the letter of resignation stating that he was resigning “for personal reasons.” They offered him a severance package and asked him to sign a letter stating that he would not discuss the case with anyone. Millar accepted and left the hospital, and Olson could focus on putting the hospital's affairs back in order.

When we share this outcome with participants in our executive education programs, they express disappointment with Olson's actions. Some feel disappointed that Millar did not need to pay for his harassing behaviors. Others feel disappointed because they think that due process has been given short shrift. Others feel disappointed because the woman who Millar harassed did not get justice.

However, if we look at our original definition of wise decisions, we see that Olson met all the elements of that definition. She met the needs of a broad range of stakeholders—the accuser, the board of the hospital, the employees of the hospital, and (one might argue) the larger community. She balanced short- and long-term interests of the hospital and also herself. Still, like many participants in our executive education classes, the final outcome does not leave us feeling satisfied. Did Olson make a wise decision in terms of protecting the hospital's viability? Absolutely. Did Olson do a good job in balancing the interests of a broad range of stakeholders? Absolutely. So, why do we do not feel better?

In organizations, ethical dilemmas do not have obvious solutions; most solutions will not please all stakeholders, most solutions will feel like compromises, and the long-term implications of solutions are unclear at best. In addition, making wise decisions will not necessarily leave the decision maker feeling good or gain immediate appreciation from others. Olson might have felt better personally if she had fired Millar, and that decision might even have gotten her respect and appreciation from at least a subset of the involved stakeholders. It could, however, have exposed the hospital to a nasty and very public legal battle on Millar's part. We realize, then, that this particular case and the emotions it involves do not exactly represent an invitation to leaders to make wise decisions. What, then, should entice leaders to make wise decisions, and what knowledge, skills, and attitudes will help them to make wise decisions?

Before we turn to this question, we invite the reader to look at another case of a leader facing an ethical dilemma.

Looking at this case, what action should Dickson and his team take? Given the severity of the problem and its impact on the organization's reputation, it is of course critical that Dickson make a wise decision. When we discuss this case in executive education classes, most participants feel that replacing the radiators is the optimal decision. After all, the mixup in the radiator fluid was not the fault of the venture; rather, it was the fault of the supplier. Going beyond this solution would be very costly. Others feel that to build customer goodwill, the company must offer the purchaser the option of either a full refund on the car or a replacement radiator.

So what did Dickson and his team do? After extensive discussions with his executives, as well as with executives at the parent organization, Dickson decided to recall all 1,000 cars. Every owner was given the choice of either a completely new vehicle or a full refund. If the owner opted for a replacement car, he or she was given a full 20% discount on the vehicle price. The owner was also provided with 3 years worth of free service on the vehicle. Dealers were provided with replacement cars at no charge along with subsidies for the 3 years of free service. The 1,000 vehicles were indeed destroyed despite the fact that the corrosive fluid in the radiators had not penetrated the radiator walls in a single vehicle. In other words, no car had suffered damage beyond the interior of the radiator.

When we share this outcome with participants in our executive education programs, they express genuine surprise with Dickson's actions. They are disappointed that Dickson and his team chose the costliest possible outcome. They are often shocked that the company destroyed 1,000 new cars that had only a single defective component in each. It appears to many to be an unwise decision.

If we look at our earlier definition of wise actions, we see that Dickson's decision and actions meet many of the elements of that definition. He met the needs of the stakeholders most influenced by the corrosive fluid—the customers and the dealers. Although in the short run the costs were higher, the decision built tremendous goodwill with customers and dealers. It established in a concrete fashion the company's core value of absolute quality. Internal stakeholders—the employees within the organization—were so impressed with the decision that they themselves set higher internal standards on quality. As a result, overall quality within the operations, which was already high, climbed steadily after the decision was made. The media learned of the decision to destroy the cars and filmed the event when cars were crushed. The news stories paradoxically generated extremely positive publicity about a car company that had taken the concern for quality to a remarkable standard. Sales of the new venture did not dip after the event but rather climbed steadily thereafter. In this case, Dickson and his team chose what was the costliest solution in the short term, but by doing so they actually enhanced the long-term viability of the organization. They simultaneously reinforced one of the organization's most important values for all of the stakeholders to see, and in this case they demonstrated its power in terms of branding and competitive advantage. This outcome in turn met the needs of the parent organization and its shareholders over the longer term as well. Although some readers will feel uncomfortable about the costliness of the solution, Dickson saw it as a critical investment rather than as a cost.

Making Wise Decisions

We believe that making wise decisions when facing ethical dilemmas requires that leaders have the courage to balance short-term demands and pressures with the long-term implications of their decisions. Leaders must be acutely aware of the "tyranny of small steps." Small steps here are the short-term decisions that meet the immediate needs of a narrow group of stakeholders, but over time they erode the organization's values, credibility, and viability. Because the immediate negative consequences of small steps appear to be minor, they are made repeatedly. This phenomenon was most apparent in the case of the Enron Corporation, where the executive team committed to its egregious off-balance sheet partnerships one by one over an extended period of time. The impact of the initial partnerships was limited, but their cumulative impact led to the company's downfall. In contrast, Peter Dickson and his colleagues did not give in to the pressure of the short-term need to minimize the costs of the recall; rather, they interpreted a core value in a manner that strengthened it powerfully and enhanced the viability of their organization over the long term.

At the same time, leaders must balance their determination to stand by their values, goals, and priorities with their ability to compromise and show tolerance for uncertainty. This fits well with what Weick (1998) referred to as the "attitude of wisdom," which he defined as a careful balancing of knowing and doubting: "It is a dynamic process in which people make sense of information differently depending on which side of the knowing-doubting scale they find themselves" (p. 57). According to Weick, those who maintain a healthy balance between feeling confident about what they know and doubting whether they really have all of the necessary information will have a greater likelihood of acting wisely than will those who either feel completely confident in what they know or doubt all of the information they have. Feeling completely confident can result in arrogance and resistance to taking in new information. Doubting all information can result in overcautiousness and lack of action. One of Weick's interesting suggestions for the development of wisdom is people's *willingness to improvise* as in the case of Rebecca Olson. This makes sense because wise decisions will need to be made in situations for which no clear-cut, ethically sound solutions exist; action needs to be taken, new knowledge gets created, and decisions need to be made.

The willingness to improvise also acknowledges that leaders do not have, and will not have, all of the information and knowledge they need. This in turn leads to the suggestion that leaders must gather information and insights from as broad a group of stakeholders as possible so as to enlarge their portfolio of potential options. With a wider set of potential actions, they can weigh the costs and benefits of each option and, hopefully, arrive at a decision that meets the criteria of our definition of wise actions.

Leaders will also find themselves to be more able to make wise decisions as they move to a longer term strategic perspective (Bigelow, 1992), as they learn more deeply from experience, and as they go through a value and orientation shift from a focus on self-interest to a focus on the breadth of constituents they must serve. All of this needs to be balanced with the leader's personal set of core values and interests. By this, we mean that leaders should not make decisions separate from their own moral principles and their own careers and livelihoods. If leaders make decisions that are not in accordance with their values, they will reduce their own effectiveness and self-confidence in the long run. The same holds for their careers. If they do not pay sufficient attention to their own careers, they will not be able to contribute effectively for a long time.

Although all of this sounds quite logical, why do we still find many examples of unwise decisions in the face of ethical dilemmas? There are numerous reasons. For example, unwise decisions are often the product of being overly decisive, serving solely one's personal needs, paying excessive attention to either short- or long-term concerns, paying too much attention to a single stakeholder, or having distracting psychological beliefs. We discuss some of these reasons in the next section.

Barriers to Wisdom in Leadership

It is clear that the rewards for wise leadership decisions are neither automatic nor immediately forthcoming in many organizations today. This is partly because, as McNamee (1998) indicated, wisdom resides in relationships rather than in individuals. Wisdom, she asserted, does not exist separate from those judging it. The difficulty is that many of those doing the judging still value strong decisive actions over more balanced wise actions. Often, the term *decisive action* can mean acting quickly without a genuine investigation of the issue or without a real understanding of the interests of a broader set of stakeholders. For example, there is one interest group that dominates today in the management world—the ever powerful pull of the financial community and its demands for short-term profitability. Many management decisions, especially at the executive level, consider all too narrowly the financial community's influence on the near-term value of the company's stock value. Investments toward the future viability of the organization are traded off for short-term equity valuation gains. Other times, self-serving needs for wealth guide executives' actions and result in unwise decisions that seriously harm the viability of the very organizations they are leading. As Sternberg (2004) pointed out, leaders in all walks of life have failed to act with wisdom when they ignored the broader interests of others. He cited Sigmund Freud, the "father of psychiatry," who lost many of his own followers because of his insistence that they rigidly follow his system of psychoanalysis. Napoleon's disastrous invasion of Russia was motivated more by his personal ego needs than by France's need to have Russia in its empire.

From our focus on individual leaders, we are particularly concerned about the personal or psychological barriers to dealing wisely with ethical dilemmas. Sternberg (2003) identified five personal beliefs that are critical hurdles to wisdom. Each of these hinders decision makers from gathering accurate and diverse information and from considering the broad range of stakeholders often influenced by a critical decision. The first barrier is the *unrealistic optimism fallacy*. This occurs when decision makers see themselves as much smarter and more effective than the colleagues around them. These decision makers in turn come to believe that they can do or accomplish whatever they wish. The second psychological hurdle is called the *egocentrism fallacy*. This barrier to wisdom occurs when individuals believe that the world revolves, or at least should revolve, around them. This leads them to act in ways that benefit themselves regardless of how that behavior affects others. The third hurdle to personal wisdom is the *omniscience fallacy*. In this case, decision makers believe that they know all there is to know and therefore do not need to listen to the advice and counsel of others. Fourth among the hurdles is the *omnipotence fallacy*, where individuals feel that they are all-powerful—that their intelligence, education, and experience somehow make them unique. The last of the barriers is called the *invulnerability fallacy*. Under this state of being, individuals come to believe that they can do whatever they want and that others will never be able to hurt or expose them; in other words, they can get away with anything because they are so clever.

All five of these personal beliefs move decision makers' attention away from the organization's long-term viability. They will not adequately survey the needs of all stakeholders and will not adequately balance the short-and long-term needs of their organization.

To see the influence of personal beliefs, leaders must cultivate a level of self-awareness and humility. They must also find advisers who are willing to challenge them personally. The burden for wise actions, however, should not be placed solely on the shoulders of individuals. Organizations can and should do a lot to guide their leaders and employees toward wise actions.

Organizational Support for Wise Actions

Beyer and Nino (1998) noted that certain types of organizational culture support leaders in acting wisely. They concluded that those companies that provide a moral compass are more likely to find leaders acting wisely than are organizations that reinforce individual opportunism, playing politics, and finger pointing.

Some companies go one step further and codify their core values in a corporate credo. Johnson & Johnson is a good example of one company that codified its values clearly and powerfully in its operations. Its credo was formulated under the leadership of Robert Wood Johnson, son of the founder, who argued a half century ago that "every act of business has social consequences." The company credo highlights the responsibilities of the company to the broadest range of possible stakeholders—from doctors, nurses, and patients, to employees, to communities, to shareholders. Interestingly, shareholders are last on the list. The Johnson & Johnson credo provided the top management of the company with clear guidelines for action when the Tylenol scandal broke. The scandal involved the deaths of seven individuals who had taken Extra-Strength Tylenol capsules that were later discovered to have been contaminated with cyanide. Guided by the credo's mandate that the first responsibility of the company was toward its customers, Johnson & Johnson promptly removed all Tylenol products from the store shelves across the United States at great financial cost to the company (an estimated $100 million). This decision balanced the various interests of stakeholders as well as short- and long-term interests. Investigations by law enforcement agencies would later show that the poisonings were the work of outsiders at some point in the distribution of the product rather than due to the company's internal production process. Over the long run, the company regained whatever share of the market had been lost by the incident, and the Tylenol brand suffered no long-term harm. The credo fostered a wise set of actions.

Other companies encourage wise decisions only after being pressured externally. For example, Nike formulated clear rules and guidelines regarding the minimum age of its workers in different countries, minimum working conditions in its factories, and rights to unionization only after receiving bad publicity about having child laborers in its overseas factories. Although in this case these rules and guidelines do not necessarily lead to wise actions, they do reduce the number of unwise actions.

Organizational support for making wise decisions in the face of ethical dilemmas can come in the form of clear norms, as in the case of Johnson & Johnson's credo, or in the form of rules and regulations, as in the case of Nike. However, Enron had an ethical code of conduct and still ended up making unwise decisions. To make norms and rules come alive, we find that it is critical that leaders regularly discuss key ethical dilemmas in an open and honest way. This helps leaders throughout the organization to understand what the organization's norms and rules mean for them in their jobs with their ethical dilemmas.

We witnessed one such example in a Dutch temporary employment agency. The salespeople found themselves confronted with racial discrimination issues when they visited customers. Certain customers would comment, "We need someone with [such and such] skills for 2 months, but please do not send us a colored one." This caused a lot of discomfort among the salespeople, who wanted to please their customers and make the sales but did not want to be discriminatory in their actions. In discussions with senior executives, the company provided its salespeople with the following standard response: "We will send you the most competent person we have." If a person of color was sent and the company protested, the customer was told that the employment agency would not work with that customer again.

Norms, credos, and rules are created by the senior executives of a company—and usually with good intentions. In many cases, however, they do not provide clear solutions for the ethical dilemmas faced by leaders further down in the organization. A culture that supports and even encourages open and honest dialogue around these ethical dilemmas is essential for making decisions that enhance the long-term viability of an organization. In addition, the organization's senior leadership must model ethical decision making. There must be rewards for ethical behavior and punishments for unethical conduct. The heroes of ethical decision making must be widely publicized. Finally, training and scenario exercises must be provided to assist employees in identifying the types of ethical dilemmas they may face along with processes to help them make the most appropriate decisions.

Implications for Research, Teaching, and Practice

Research

The key question that we continue to find difficult to answer is why one person acts wisely in the face of ethical dilemmas, whereas another person does not. What made Rebecca Olson and Peter Dickson choose the wise paths, whereas others might have chosen to favor one stakeholder group more strongly than others? Will we find the differentiating factors in individual differences, or do we need to look at the organizational context?

In terms of individual differences, it may be worthwhile to explore the relationship between the Big Five personality traits (e.g., Goldberg, 1993; John, 1990; John & Srivastava, 1999) and wise decisions as well as variables such as tolerance of ambiguity (e.g., Chen & Hooijberg, 2000). Here we would expect that, for example, neuroticism would correlate negatively with making wise decisions because those high on neuroticism tend to be more emotionally reactive. We would expect conscientiousness and tolerance for ambiguity to correlate positively with making wise decisions because those high on conscientiousness tend to control their impulses better and those high on tolerance for ambiguity tend to be more comfortable in seeking diverse inputs. We would expect that those who do not react emotionally, control their initial impulses, and seek out diverse points of view are more likely to arrive at wise decisions. They would more naturally balance short- and long-term interests, as well as the interests of multiple stakeholders, and therefore strive to ensure the long-term viability of the organizations for which they work.

Even if individual characteristics explain part of the differences in the extent to which individuals seek out wise actions as we have defined them, what organizational variables influence wise actions the most? We have mentioned norms, rules, and dialogue. In addition to those variables, one might look at the influence of corporate values, the actions of senior leaders, reward systems, formal mechanisms for whistle-blowing, the presence or absence of an ombudsman role, how actively the board participates in the ethical governance of the organization, and how much the organization centralizes decision making versus encourages an upward flow of information.

Teaching

We find that the case method works well to engage students and participants in thinking and discussing ethical dilemmas, wisdom, and leadership because it allows them to understand the complexities involved in ethical decision making. Because the ethical dilemmas do not have easy answers, engagement and dialogue will foster a deeper understanding of the issues involved. Participants can appreciate the balancing acts in which one needs to engage and the personal and organizational characteristics that are necessary to make wise decisions.

When engaging participants and students in these types of discussion, participants must be prepared to face disillusionment with the outcomes of the cases. Many of those who come through our master of business administration (MBA) and executive programs still have an image of leadership that includes strong forceful action. This image conflicts with the constructive compromises that lie at the heart of wise decisions.

Practice

The best practical advice we can give is that leaders keep our definition of wisdom handy. Kurt Lewin once remarked that there is nothing as practical as a good theory, and that certainly applies here. That is, when we face ethical dilemmas, we consider as wise decisions those that are made carefully with a breadth of information and perspective and with great consideration of the multiple constituencies to the decisions. We consider decisions as wise when their outcomes enhance the *viability* of the organization over time—viability that is shaped and determined by multiple stakeholders. Therefore, the ultimate proof of a wise decision is that it enhances the long-term viability of an organization and also balances effectively and positively the needs of the fullest possible range of stakeholders, including the needs and drives of the decision maker. In many cases, however, this may mean that wisdom results in constructive compromises given that stakeholders themselves may hold widely diverging stances on a single issue. To make such wise decisions, then, leaders face a paradox. They need courage to stand up for what they believe is right, and need to have a strong set of core values so that they know what is right, while simultaneously being humble about what they know, seeking the involvement of others in thinking through the ethical dilemmas, and being willing and able to make constructive compromises.

Conclusion

Both individual leaders and organizations can do much to prevent unwise actions and to increase the probability of making wise decisions. Leaders can, by using our definition of wise action, reflect on what constitutes wise actions for the particular ethical and thorny dilemmas they face. To do so, they must constantly remind themselves of what kinds of actions will contribute to the long-term viability and adaptability of their organizations. That said, the reward for wise action ultimately lies in a sense of self-acceptance or moral well-being on the part of leaders who know they have done their work wisely. The moral well-being comes both from knowing they have adhered to a core set of constructive values and from having contributed to the larger good beyond narrow self-interests.

Note

1. This case study is adapted from Badaracco's (2002) *Leading Quietly* (pp. 12-15).

Dealing With Richard Millar

In 1997, Rebecca Olson had just become chief executive officer (CEO) of St. Clement's Hospital in Omaha, Nebraska. [1] Many people were surprised when Olson got the job because her management experience consisted of 8 years as vice president of a chain of small “doc-in-the-box” clinics owned by a large health maintenance organization (HMO). Moreover, unlike all of her predecessors, Olson was not Catholic.

Clearly, the St. Clement's board had taken a calculated risk in hiring Olson. The board members had quickly agreed on the problems facing the hospital but had difficulty in deciding who was the right person to address them. The hospital had been losing market share for years, and several similar facilities had been forced to close their doors. Managed care had led to high turnover among the hospital's doctors, nurses, and administrators, and patient complaints were rising quickly. Olson's supporters on the board believed that she would bring energy, intensity, and creative new approaches to delivering medical care. Others on the board, believing that the financially fragile hospital needed a leader who knew the institution inside out, supported an inside candidate. Eventually, the board agreed to hire Olson.

A few days after Olson started work, the board chairman told her about a troubling personnel issue. Melanie Wermert, a clerical employee with physical infirmities, was about to file a complaint with the state employment agency accusing the hospital's vice president of operations, Richard Millar, of sexual harassment and discrimination. Olson had met Millar just a few weeks earlier, had a pleasant conversation with him, and remembered his confidence and quiet charm. Millar, a tall, distinguished-looking man in his mid-50s, had worked at St. Clement's for 25 years. He had held nearly every important nonmedical position, including community affairs director and head of accounting. Millar came from a prominent Omaha family and was the inside candidate supported by the cautious board members. Until the board announced its choice of Olson, most of the hospital staff believed that Millar would be the next CEO.

As soon as the board chairman left her office, Olson let her anger bubble to the sur-face. The chairman and a few others had known about the charges for several weeks but had waited until now to tell Olson. Even worse, the chairman confessed that he had discussed the matter with the previous CEO, who had decided not to get involved because he would not have been able to see the issue through to its conclusion. Olson thought that this was simply a cop-out. She also realized that she identified very strongly with Wermert, even though the two women had never met. Like Wermert, Olson was physically disabled. She walked with a pronounced limp, the result of a freak sledding accident when she was a teenager.

Because Olson had handled several other harassment complaints at past jobs, she understood the problem in front of her. The hospital's reputation, already hurt by financial problems, could suffer from a scandal. If the state commission found that harassment had occurred, it could penalize the hospital and the victim could file suit. Olson's handling of the situation would also color her initial relationship with the hospital staff, its board, and the local community (if the matter became public).

Olson began working on the problem immediately. Fortunately, the hospital had a process for investigating harassment charges, and she set these wheels in motion. In interviews with the hospital's outside counsel, Wermert repeated her charges and a coworker revealed that Wermert had told her about the incident shortly after it happened. In other interviews, rumors surfaced that Millar had harassed another woman at the hospital, but she had moved out of state and could not be located. The hospital's lawyer also told Olson that he suspected his investigation was being impeded because some people were intimidated by Millar. He also heard allegations that Millar had recently bullied two employees into leaving their jobs because Millar disliked them.

As Olson heard more about Millar's vindictive character, she found, to her surprise, that she was growing wary of him, even though this was the last thing that anyone who knew her would have expected. As a child, Olson played sports year-round and, because she played so aggressively, was injured frequently. After the sledding accident, when she could no longer compete in sports, she turned her high school and college studies into intense competitive events. Some of her medical school professors were tough and blunt, but she was proud that none of them had intimidated her. As a leader, Olson was viewed as direct, forceful, and sometimes harsh. Over the years, she had received several performance reviews suggesting that she “tone down” her style, but she had not paid much attention to this advice.

Millar's tranquility alarmed Olson. She assumed that he knew something about the charges against him because he had friends all around the hospital. But Olson saw Millar several times a day, often spending an hour or two in meetings with him, and he always seemed calm and relaxed. One afternoon, she even watched him trying to make small talk with one of his alleged victims. The woman sat rigidly and looked past Millar while he smiled and leaned against the side of her desk. This gave Olson the creeps. Millar did not seem to care what he had done or whether he was being investigated. He seemed to think that he was bulletproof.

The lawyer's report left Olson with little doubt that Millar deserved to be fired. In fact, Olson's gut reaction was that Millar not only should be fired but also should be dragged out of his office and thrown into the street. She did not want him to get away with his reprehensible behavior, and she believed that it belonged on his permanent record. In addition, firing Millar would also meet the principal demand of the woman who had charged him with harassment. The accuser had indicated that she would not go to the state board if the hospital fired Millar, and this would avoid a lot of ugly publicity.

The Case for Absolute Quality

Peter Dickson had recently accepted the presidency of a start-up venture within one of the world's largest automobile manufacturers. The parent organization decided to create a new venture that would focus on new vehicle and engine designs for specific consumer segments. The company was reluctant to put the new venture under its existing operations for fear that the venture's vehicle designs would produce only incremental improvements on the company's existing product line. Competition had become particularly fierce in the industry, and the company wanted to maintain its already strong leadership position with an entirely new generation of vehicles. It was decided that a stand-alone venture would greatly increase the probability of truly innovative designs to meet the demands of certain high-growth market segments.

With this mandate in hand from the parent organization, Dickson felt that it was imperative from the first day of the venture to devise a set of guiding core values. In a 2-day retreat, Dickson and his executive team crafted the values they felt were most appropriate given the venture's mission and strategy. One of the values that the team debated at length was the issue of product "quality." Most of the executive team felt that quality was no longer a distinguishing factor within the industry. In other words, it was difficult to compete on quality because industry quality standards were already so high. Given this situation, the group decided that a core value of "absolute quality" would be the only way to distinguish the venture's product from its industry peers on this dimension. Therefore, absolute quality became one of the venture's five core values.

Sometime later, during the early weeks of production of the first model car, Dickson received a phone call from one of his leaders. The tone on the line was anxious and urgent. As Dickson listened carefully, he learned that the supplier for the vehicles' radiator fluid had inadvertently shipped the wrong fluid. This particular fluid contained a corrosive chemical that would permanently damage the radiators over time. Already, 1,000 cars had been manufactured and shipped to dealers. All of the radiators in these cars contained the contaminated fluid.

Immediately after the call, Dickson called his executive team together for an emergency meeting. He explained what had happened to the radiators and canvassed the group as to how the company should respond. There was unanimous agreement that the company needed to recall all 1,000 automobiles immediately. One executive raised the question of whether simply replacing the radiator was sufficient given the need to build customer and dealer goodwill. Several executives, however, pointed out that the fluid probably had not had time to do any damage beyond the inner wall of the radiator itself. Simply replacing the radiators would be costly and a reasonable remedy in itself. A debate ensued. Dickson encouraged the group to consider as many options as possible before reaching a final decision.

One executive commented that customers should be given the choice of either full reimbursement or a completely new car. At this point, Dickson raised the issue of the venture's core value of absolute quality. What actions would such a value lead the executive team to take in this situation? And how broadly should absolute quality be defined? Should it go beyond the quality of the product and to the quality of the customer experience overall? Several executives concurred that the situation demanded the offer of a full refund if they were to define quality to include the customer experience. Customers should then be given the option of buying a new car with a significant discount. Others weighed in on the costs of such actions. They felt that this was a very costly choice for the organization. Their industry peers would never go to such lengths.

As the team members debated their predicament, it became clearer to everyone that the core value of absolute quality meant they would need to take an action beyond the norms set by the industry. The competition would simply recall the cars, replace the radiators, and hand them back to the owners. The new venture would need to do something different. One executive suggested that it might be important to make an even bolder statement to the public and to the organization. Why not destroy all of the recalled cars in a symbolic commitment to absolute quality and then give customers the option of either a new car or a full refund? It would be an expensive decision but a critical one for building goodwill among customers and for showing the executive team's commitment to the value of absolute quality. This idea generated a great deal of debate. One camp pointed out that destroying the cars would be foolish because most of the vehicle components were untouched by the problem. The debate raged on. But everyone felt that a decision needed to be made—and soon. The new venture's future was already at a critical juncture during the earliest days of its life.

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