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Integrity

One of the truly famous leaders of our time became president of a Fortune 500 company when he was only forty-four. At an age when most people are still struggling for professional recognition, he had reached the top. People called him a genius. A rain-maker. A superstar.

His story didn't start that way, however. He wasn't born with a silver spoon. The son of a machine-parts salesman, he spent his youth in blue-collar towns. He was a rather nerdy child, a self-described loner who earned good grades. He worked hard; as a teenager, he saved fifteen thousand dollars at an after-school job. Later he won an engineering scholarship to Southern Methodist University and then distinguished himself as a junior bank officer in Texas. Everyone who knew him agreed that this man possessed great passion. He was definitely determined to get ahead.

He earned an M.B.A. from Harvard Business School, where he again distinguished himself by graduating with honors. In the classroom, he showed a special interest in free markets. From there, he moved to McKinsey & Company, a premiere consulting practice, and became one of the youngest partners in the firm's history.

Here was a person whose intellectual horsepower was beyond question. People described him with words such as “incandescently brilliant” and “the smartest guy I ever met.” He was a visionary too. A paradigm changer. The kind of person who sees the world differently than the rest of us do. He could sift through data, recognize trends, uncover hidden opportunities.

His specialty was the energy business, in particular the labyrinthine market for natural gas. He came up with novel ideas for how to transform the industry. His innovative thinking showed no end.

He later left the consulting firm to join a major client, and the next several years were a meteoric rise to the top. He created new business units, discovered untapped revenue streams, and almost single-handedly revolutionized the energy sector. Magazine covers lauded him. They celebrated his leadership and marveled at his ambitious ideas. During the span of a decade, his company’s market capitalization increased from \$4 billion to over \$100 billion, and he became a very wealthy man.

Today he is retired and leads a quiet life in Englewood, Colorado, where he is serving a twenty-four-year prison sentence for mass fraud.

The person we just described is Jeffrey Skilling, the former CEO of Enron. His story is well documented, and most of the world immediately associates his name with crime. And yet until the sudden collapse of Enron, he displayed the passion, intellect, and vision of a great leader. What went wrong?

INTEGRITY IS THE FOUNDATION

Integrity is the fundamental leadership attribute. Nobody can lead effectively without it. Former Wyoming senator Alan Simpson once said, “If you have integrity, nothing else matters. If you don’t have integrity, nothing else matters.”¹

Simpson's words aren't exactly true; other aspects of leadership are critically important as well. But if you need to make a list, integrity belongs at the very top. It's where you start. It's what holds everything else together.

Integrity is like the foundation of a house. It's not the first thing people notice, yet without it, all the granite countertops and wood floors don't have a place to stand. In fact, without integrity, all those amenities are merely a waste of money. Other aspects are important, to be sure: no one would want to live in a house with poor heating or faulty plumbing, for instance, and a leaky roof is an energy killer and a real nuisance. These problems, however, can be fixed. When a house lacks a solid foundation, on the other hand, you might as well tear the place apart and start over. Otherwise you're likely to be crushed beneath the rubble when it all comes crashing down.

The same is true in leadership. Integrity is the fundamental attribute that keeps everything else secure. A leader who possesses integrity but lacks vision or passion, for example, will at worst be incompetent. He might muddle through or create temporary setbacks. By contrast, be wary of leaders who dazzle the world with brainpower or charisma at the expense of deeper ethics. These people might lie, cheat, and steal their path to the top. And like Jeff Skilling at Enron, they might destroy the organization along the way.

As a concept, integrity is a complex part of human character. Most of us have a vague sense of what it means, although we might have difficulty describing how it works in practice. In essence, integrity boils down to honesty, consistency, and solid ethics. Leaders who possess integrity follow up on their promises. They match their words with deeds. They eschew deception. They treat people consistently and apply rules evenly. Finally, leaders with integrity don't unfairly jeopardize others in order to advance their own agendas.

Of these characteristics, honesty may seem to be the most straightforward, but it means a lot more than just telling the truth. Mere silence is not enough. Honest leaders are accountable and own

up to their mistakes. They are capable of delivering bad news even though doing so might be painful. This includes holding others accountable too. Imagine the boss who avoids having a tough conversation with an underperforming employee. Instead, she puts off the discussion until any remedial steps are too late. That's not acting with integrity.

The most common problem with honesty is when leaders believe that it is limited to avoiding outright lies. According to this way of thinking, omissions of truth are acceptable, and it is okay to deceive. But as we like to point out to colleagues and friends, another word for deceive is *mislead*.

To be sure, there are times when leaders must be cautious about what they say. The president of the United States, for example, must take steps to avoid the onset of public euphoria or panic. Sometimes this means bending or omitting segments of the truth. But this is discretion, done with the group's welfare in mind. Deceit, by contrast, is undertaken to protect individual interest. Usually the person who operates this way parses words as a stratagem for self-preservation. He finds loopholes. He rationalizes the bad outcomes of others. He tells himself, *It's not my fault if they didn't read between the lines, or, I didn't lie—they just weren't clever enough to work out all the possible ramifications*. This isn't the way to lead a group of people. Whenever we meet someone who deflects questions like a trial lawyer, we know that candidate would not make for an effective leader.

This potential for deceit also underscores why a lack of integrity is so dangerous in the hands of those who are intellectually gifted and can use their impressive cognitive skills in dramatic, undetectable ways. Given their access to power and information, they are in a unique position to exploit organizational interests. But effective leaders do not conduct themselves in this manner. Their sense of integrity does not permit it. For them, transparency and leadership are one and the same.

GOOD LEADERS ACT ETHICALLY

Of course, honesty by itself does not constitute integrity. A criminal might be perfectly forthcoming, but we wouldn't want him to lead. With this in mind, people with integrity also know the difference between right and wrong. They treat others fairly, consistently, and with a just hand.

They begin by living up to their promises. Leaders with integrity stay true to their commitments. They never back-pedal to serve their immediate needs. Watch out for people who constantly claim, "Circumstances have changed," or "I wouldn't have said that if I had known," or "That's not what I meant," only to leave others hanging. Good leaders deliver on their word.

When it comes to other issues of right and wrong, good leaders exercise strong ethics. Some people claim that the concept of ethics is too vague and leaves too much room for personal interpretation. According to this view, fairness is in the eyes of the beholder. "One person's terrorist is another's freedom fighter" is this argument's familiar refrain. So how can we expect leaders to adhere to any definable standard?

Although it's true that no universal sense of right or wrong is readily apparent with respect to abstract human issues (such as the meaning of equality or the proper role of the state), this fact does not mean that we have to throw ethics out the window and resort to nihilism. On the contrary, most of the practical problems that leaders face every day are amenable to a rather straightforward ethical rule: one's own interests cannot count for more than the interests of others. Stated differently, treat others the way you would expect to be treated. In other words, follow the Golden Rule, a principle that has stood the test of time in different cultures around the world. For example, the wisdom of the Golden Rule was rediscovered by Jesus and Confucius; by the Stoic philosophers of the Roman Empire; by

Leviticus and the Mahabharata; by social contract theorists such as Hobbes, Rousseau, and Locke; and by moral philosophers such as Kant in his categorical imperative.²

If this litany is a little too rich for your blood, consider what we in the business community often refer to as the “newspaper” or “mother” test. Would you be comfortable if what you are doing were printed on the front page of the *Wall Street Journal*, with all the facts laid out for everyone to see? Would you be comfortable if your mother knew the truth behind your decision? Viewed in this light, most ethical issues that leaders face aren’t as difficult as they might appear.

Let’s consider a couple of common examples. Is it okay to punish one employee for breaking company policy while permitting another to escape with a lesser decree? Obviously not. Each should be treated consistently. If you were in their shoes, you would expect the same. Is it okay to accept special favors from vendors knowing that it might create bias with respect to a future procurement decision? What would your shareholders expect? Would they react favorably knowing that their investment is subject to this kind of influence? As a leader, would you feel okay having such information printed on the front page of your annual report?

Toys-R-Us CEO Jerry Storch told us that this last issue is something that his company pays especially close attention to: “We have a zero-tolerance policy towards even slight gifts from a vendor. If there is something that trades hands, then there needs to be an invoice and compensation for it.”³ For Storch, this rule is critical for fostering an ethical culture. Moreover, he believes that making it stick occurs only if direction comes from the top. “The first year I got here,” he told us, “the auditors said, ‘Hey, do you and your wife want to go to the U.S. Open tennis tournament?’ They were nice guys, so I said sure. But I also said that I have to pay for the tickets. They agreed, although they told me they weren’t thinking that because they were sponsors of the event. So then I received the tickets, and they were some ridiculous price, like a thousand dollars apiece.

So I wrote a personal check for two thousand dollars, or whatever it was.” Hearing this story, we couldn’t help but tell Storch that we hoped he at least ended up with good seats. “They were good seats,” he laughed. “I would never have paid that on my own, but I did.”

For many professionals, distinguishing between appropriate and inappropriate offerings can be a particularly difficult lesson to learn. Perhaps due to inexperience, they see kickbacks as a legitimate part of moving up the corporate ladder, and they are eager for all the perks that might come their way. The stories they’ve heard from friends or colleagues who enjoy VIP treats fan the fire by making such splurges seem like standard fare. Rising professionals, especially successful ones, can easily be lured into thinking that they too are entitled.

But this is a dangerous path because it is easy to lose sight of the fact that not all perks are the same. When a middle manager’s company sends her on a training conference to Las Vegas, this is different from accepting special favors from a vendor or other third party, a situation that poses a potential conflict of interest. The manager might feel a sense of indebtedness that is not easy to shake.

Top leaders should be particularly wary of believing that they deserve special treatment. This kind of thinking can severely cloud their judgment. And the risk is compounded by the fact that it is a common trap for people in positions of authority. Simply stated, power can corrupt, and leaders who are not grounded with a strong sense of integrity often end up traveling down a slippery slope. They create their own shifting, internal calculus until nothing is off limits—first U.S. Open tickets, then a private jet, then perhaps the corporate treasury.

When Dennis Kozlowski was CEO of Tyco International from 1992 to 2002, he funded much of his lavish lifestyle at company expense. He used \$5 million of Tyco money to buy his second wife’s wedding ring, and on her fortieth birthday, the company paid for a toga party on the Italian island of Sardinia, complete with a private

concert by Jimmy Buffett and a giant ice sculpture of Michelangelo's *David* with vodka flowing out of its penis. Tyco spent almost \$17 million on a luxury eighteen-room Manhattan apartment in Kozlowski's name, plus an extra \$12 million for furnishings (including a six thousand dollar gold shower curtain). Yet through it all, Kozlowski never thought that he was doing anything wrong because there was no cover-up, no criminal intent. He simply felt he deserved these perks because he was the CEO.

At Enron, executive behavior was even worse. Top brass there resorted to elaborate schemes in order to cover up the company's real financial condition. Once all the smoke cleared following bankruptcy, a complex web of offshore accounts and phony partnerships appeared. Enron had been falsifying records. Its CFO, Andy Fastow, used shell companies to hide massive losses from Enron's financial statements. In theory, these companies were supposed to be independent, but Fastow worked both sides of every transaction. Even worse, he cut out a piece for himself and put it in his pocket. All in all, he defrauded Enron shareholders out of tens of millions of dollars this way. This number pales in comparison to the amount that Enron illegally shifted, however: at the height of Enron's debt, its balance sheet showed that it owed nothing, when in reality it owed \$30 billion.

LEADERS WITH INTEGRITY GET RESULTS

The Enron and Kozlowski examples are extreme cases, but (sadly) not as surprising as they should be. As a society, we are accustomed to leaders with big egos, and we often expect them to act in self-absorbed ways. In fact, we almost believe they *should* display a certain degree of swagger. The truth is that most of us like a little bit of rock star in our leaders. We respond to their magnetism, their celebrity. Unfortunately, a variety of research shows that by placing too much

emphasis on these other qualities and not enough on integrity, we are doing ourselves a great disservice. Leaders who possess integrity get results, and the organizations they lead consistently outperform the rest.

From a commonsense standpoint, we all understand the personal benefits of dealing with someone who possesses integrity. We trust and respect them. They are the kind of people we want as relatives, colleagues, neighbors, friends. But what about at the organizational level? Does integrity translate into a quantifiable difference at the bottom line? Or is it just some touchy-feely concept? How do we know that integrity *works*?

Tony Simons, a professor at Cornell University who studies organizational behavior and leadership, researched these questions and tested whether staying true to one's word and treating others fairly is correlated with higher company performance. The kind of person he had in mind was Stan Myers, CEO of SEMI, a global semiconductor industry association. Many years ago when Myers was CEO of Mitsubishi Silicon America, the company decided to move its headquarters from the San Francisco Bay Area to Dallas. Employees were offered an option: relocate to Dallas and stay with Mitsubishi, or accept a severance package consisting of eight months of salary. A year after the move, Myers learned that a former employee named Alan had left the company without receiving his severance. The company never cut him a check, and Alan never asked for one. Instead, each party had simply gone its separate way. Without hesitation, Myers immediately tracked down Alan and made sure that the company sent him a check. Then he visited Alan's new office and asked to meet with him in a conference room. When Alan arrived, he was confused.

"What are you doing here?" he asked. "I haven't seen you for a while."

"Yes, Alan, but I wanted to tell you that we forgot to pay you your severance."

Alan was overwhelmed, and *fifteen* years later, Myers heard from him again. Alan had become a successful entrepreneur, and he sought out Myers to present him with an engraved iPod Nano as thanks for his leadership and friendship.⁴

Obviously Myers's gesture made a lasting impact on Alan, but this story throws our question into stark relief: Was Myers an effective leader, or was he merely a Good Samaritan? Sure, he did the right thing, but did he advance Mitsubishi's interests? Many readers might conclude that he did not. After all, it seems likely that Alan would have forgotten about the unpaid check. In effect, Myers voluntarily issued it from the company treasury, a sum of money that Mitsubishi might have kept, along with the time and expense of Myers's trip to personally apologize to Alan. From Mitsubishi's standpoint, might those resources have been better spent if Myers had stayed in Dallas and worked on more pressing issues?

To test this hypothesis, Simons surveyed over sixty-five hundred employees at seventy-six Holiday Inn franchises. These surveys asked participants to anonymously rank the extent to which their managers' words and actions were aligned. Using a five-point scale, employees evaluated statements such as, "My manager delivers on his promises," and, "My manager practices what he preaches." Simons and his fellow researchers then correlated the results of the surveys with the hotels' customer satisfaction surveys, personnel records, and financial records. Controlling for other variables, they found that perceptions of managerial integrity had a profound effect on hotel performance. In fact, the link was so strong that a one-eighth-point difference in a hotel's score on the survey translated to an increase in profitability of 2.5 percent of revenues—or \$250,000 annually per hotel.⁵ No other aspect of managerial behavior that Simons's team measured had this big of an effect.

How exactly does this work? Why does integrity drive financial performance? In the best-run organizations, it flows from a culture in which workers know that they can rely on others to

follow the rules and get things done. Kroger CEO Dave Dillon likens integrity to the way in which our faith in a traffic system permits us to move around the city. “You know,” he said, “that when the light is green, you can go because people who want to go the other way are stopped at red. If you didn’t have that in an organization, on every transaction you would have to start over.”⁶ In other words, you might take integrity for granted, but things break down fast when it goes away. “Integrity allows you to assume important characteristics about how things work,” Dillon continued. “Without it, you’d have to expend extra energy on every issue, just like you’d have to stop at every corner if the traffic system didn’t operate the way it does.”

Basically it all comes down to trust. Integrity fosters trust, which leads to higher productivity. When employees trust their leaders, they don’t have to worry that their work won’t be rewarded, that promises won’t be met, that the organization will go bankrupt, or that executives will milk all the profits for personal benefit. Like the driver who has faith in the traffic system, employees can hit the gas and get from point A to point B.

For decades, leadership experts Jim Kouzes and Barry Posner have been conducting extensive research to identify which leadership qualities are most important for business and government executives. As part of this effort, they ask the following open-ended question: “What values (personal traits or characteristics) do you look for and admire in your leader?”

After administering a questionnaire to over seventy-five thousand people around the world, the same result comes up year after year: honesty consistently ranks as the most desired leadership trait. More than competence, intelligence, inspiration or even vision, followers want a leader who tells the truth. For example, in 1987, 1995, 2002, and 2007, 83, 88, 88, and 89 percent of respondents, respectively, indicated that honesty was the most desired trait. These figures compare with 43, 40, 47, and 49 percent, respectively, who

said intelligence was what they wanted most.⁷ According to this extensive survey, honesty was twice as important as intelligence!

“When people talk to us about the qualities they admire in leaders,” Kouzes and Posner reported, “they often use ‘integrity’ and ‘character’ as synonymous with honesty. No matter what the setting, everyone wants to be fully confident in their leaders, and to be fully confident they have to believe that their leaders are people of strong character and solid integrity.”⁸

One organization that understands this dynamic is Ryder System, a Fortune 500 company based in Miami, Florida. Leaders at the company place an emphasis on creating a culture where everyone is up-front and treated fairly. As one of the nation’s largest providers of transportation and supply chain management services, Ryder employs roughly thirty thousand workers across North America, Europe, and Asia and generates more than \$7 billion in annual revenue.⁹

When CEO Greg Swinton took over the top post in 2001, he discovered a company that had all the pieces to succeed but was still coming up short because the different pieces of the organization didn’t operate together. “We were like the Chicago Cubs,” he explained to us.¹⁰ “We had good players, but we didn’t win very much.”

A big reason for Ryder’s inability to fully gel as a team was its tradition of insularity. People didn’t share information or ideas much across business units and they didn’t feel comfortable stepping forward to admit that something might be amiss. They were terrified of reporting bad news to their superiors, and as a result, they hunkered down in silos, allowing what would have been otherwise manageable problems to escalate.

Swinton set out to change all this. He knew that in order to see improvement, Ryder needed a corporate culture with more openness. People had to come to terms with the idea that honesty, accountability, and organizational success go hand in hand.

“The truth will set you free. But first it will make you miserable” was Swinton’s early mantra. He knew the job wouldn’t be easy.

Convincing people to adjust their mind-set never is. He made it absolutely clear to everyone at Ryder that there would be no negative repercussions if they shared bad news—only if they kept it to themselves. Slowly, employees began to open up and trust him. But more than just taking his word, they saw firsthand that he meant what he said.

In the early days of his tenure, Swienton recognized that there was a problem with the company's asset management program. As a transportation and logistics company, Ryder had a large fleet of trucks and vehicles across the United States. Ensuring the company efficiently managed these assets, as well as the financing to procure, distribute, and maintain them, was an important priority, and one that Wall Street closely scrutinized.

As a new CEO, Swienton needed someone with more knowledge of the asset management program to explain the problem to the company's board. Consequently, he asked an executive with hands-on experience to accompany him and give a presentation at the next board meeting. In effect, Swienton was asking the manager to deliver the bad news. The manager, Swienton told us, turned white as a ghost.

Swienton reassured the manager that the latter was the only person who knew enough about the problem to give the board an honest hearing. He also told the manager, "Look, I'll make you a deal. If the board appreciates your story, I'll give you the credit. If they have a problem with it, I'll take the blame." The main thing was to get the situation out in the open so the organization could deal with it. "You see," Swienton said to the employee, "if we don't share this information with the board, here's what will happen. We're both screwed if the problem gets worse and it turns out we kept the board in the dark. Or if we fix it, we won't get credit because they will not have known that there was a problem in the first place." In the end, he convinced the manager, who took the lead in giving the board a full appraisal, as he knew that Swienton had his back. The board, while not pleased, still congratulated both of them for their transparency, provided several good ideas, and a solution was found.

If Swienton hadn't led with integrity—if his style had been to issue threats, for example, or show an obsession with self-preservation—this result almost certainly would not have happened. The manager would never have even been invited to the board meeting. Instead, the manager provided full disclosure, and, following Swienton's lead, learned firsthand that a system of accountability, transparency, and trust enables everyone to get ahead.

This kind of behavior sets an important precedent and has a cascade effect. The manager took this lesson back to his team, who passed it on to their coworkers, and so on. After a while, the entire organization had a new framework for how to act.

According to Greg Greene, Ryder's chief administrative officer and director of the company's human resource function, Swienton's leadership encouraged integrity in others. In 2011, Green told us that Ryder was a much more open, cordial, productive place to work where people felt comfortable airing their views. There was a sense that everyone was traveling along the same path and that organizational results mattered more than individual triumphs. Greene told us that people outside the organization were aware of the change too. More and more, he said, he was receiving calls from professionals who wanted to work at Ryder because of its positive culture. "What counts is being allowed to get the job done right and to take pride in what you do. People everywhere really respond to that."¹¹

INTEGRITY IS CONTAGIOUS

For years psychologists and sociologists have been intrigued by the change in human behavior that occurs when people move from an individual to a group setting. In particular, the tendency of large numbers of people to act in the same way at the same time has fueled intense intellectual debate. Freud called this the "herd" or mob

mentality, and it manifests in many ways. We see it in apparel trends, for example, and the consumer craze that sometimes accompanies the introduction of a new product such as the iPad. When kids get together, they often converse in their own language or act out special games. University students engage in binge drinking.

An especially disturbing brand of the herd mentality is a group's propensity for unruliness. Anyone who has witnessed a World Cup or Super Bowl celebration knows what we mean. During such outbreaks, pandemonium is often set loose. Individuals who are otherwise docile in the privacy of their homes seem to change personalities altogether. They may shout, fight, burn, cry, loot, even kill, when they see others doing the same.

No one can explain exactly why people act this way. But in the 1960s, Stanley Milgram, a psychologist at Yale University, conducted an experiment to determine how far individual behavior might deviate from the norm. Milgram's focus was slightly different from the herd mentality: he wanted to test the effect of authority on individual behavior. Specifically, he set out to determine the extent to which participants would be willing to administer an electric shock to complete strangers if an authority figure told them that this is what they were required to do.

Here is how the experiment worked. Two strangers arrived in a waiting area. When the experimenter entered, the strangers were asked to draw lots to determine who would be the "teacher" and who would be the "learner." Unbeknown to the person with the teacher role, both lots said the same thing. But the learner was a professional actor who played along by giving himself the learner designation. With their roles determined, the participants separated into two rooms. In one room were the teacher and experimenter (who wore a white doctor's coat to contribute to the impression of authority). The actor-turned-learner went to another room.

There was no way to see from one room to the next. Instead the teacher was instructed to sit in front of a console that contained

what he believed was an electroshock generator and an intercom. The teacher was further instructed to ask a series of questions to the learner. When the learner made an error, the teacher was required to “penalize” the former by administering an electric shock in increasing increments of 15 volts. Of course, the shock wasn’t real at all. But the teacher believed it was real because the actor responded through the intercom with prerecorded protests and demonstrations of pain. The greater the indicated voltage, the more dramatic the response was. Some actors feigned heart problems or loss of consciousness. They cursed, banged on walls, even screamed.

What is striking is that although the teachers believed they were causing severe harm to the learners, they continued to administer what they thought were shocks. Many giggled nervously. Although at some point all participants expressed a desire to stop and check on the learner, they continued administering shocks if the experimenter said that he would take responsibility and that the experiment required the teachers to continue. Only one of the forty participants steadfastly refused to administer shocks below the 300 volt level. More frightening, 65 percent of the participants were willing to continue until the maximum 450 volts, a fatal level.¹²

Milgram’s study has been used to explain atrocities under Nazi Germany and during the My Lai massacre in Vietnam in 1968. But it has practical applications for everyday leadership as well, in that people in organizations look to the leader for guidance on how to act. This includes deciding what is right and what is wrong. When a leader sets the tone for what is ethically permissible, the tone is contagious. Group members will naturally permit their own sense of integrity to follow. They might even rationalize severe deviations in ethical conduct. They might tell themselves that they are merely “cogs in a wheel” or “this is how things are done.” So long as the leader is willing to take responsibility, the thinking goes, “What can I do?”

Revisiting the Enron example, it seems fair to conclude that this type of thinking spread across the organization because of what

was being said and done at the top. Skilling and Enron founder Kenneth Lay sent a clear message to everyone that the company's culture was one based solely on dollars and cents, kill or be killed. Enron's performance review system mandated that employees be graded on a scale from 1 to 5 every six months, with the further stipulation that 10 percent had to be fired after the review. This system, which came to be known as "rank and yank," benchmarked employees in categories such as teamwork and communication. Yet insiders report that the only factor that really mattered was how much money someone brought in. If an employee brought in business, it didn't matter if he was a jerk. The performance review system also devolved into a smoke screen for cronyism as senior executives manipulated the process to make room for their friends.¹³

Management's obsession with Enron's stock price also provided employees with a clear signal of what mattered most. A giant stock ticker was placed in the lobby, and TV monitors showing CNBC were displayed in all the elevators. At meetings, employees were constantly reminded of the central importance placed on a fast-rising stock price, and in 1998, when the stock hit fifty dollars a share, Skilling and Lay handed out fifty-dollar bills to every employee. Indeed, it seemed that for Skilling, the organization's only measure of value was what came out of Wall Street. When traveling on the road, he phoned in several times a day to inquire about the stock price. Salaries, bonuses, even the right to keep one's job, were all tied to that magic number. Any concern for collegiality, serving customers, public goodwill, or creating long-term institutional value were minor concerns at best.

Against this backdrop, it is no surprise that Enron's traders conducted themselves so despicably when the California energy crisis hit in 2000: they were merely carrying out what they had been led to do. In fact, the crisis wasn't actually a crisis at all, but rather an artificial electricity shortage created when companies such as Enron used their control over vast energy grids to interrupt the normal flow of service. In effect, the company shut down plants and exported

power from California. When the price spiked, the company sent the power back in. Rolling blackouts drove California residents and businesses into a frenzy, and Enron made billions in the process.

Back at Enron headquarters, traders secretly caught on tape were overjoyed. As a summer heat wave in California stoked wildfires and sent the price of energy soaring, they exclaimed, “Burn, baby, burn!” and “That’s a beautiful thing!” As news accounts showed Californians trapped in elevators and elderly citizens unable to pay their bills, the traders joked, “All that money you guys stole from those poor grandmothers in California,” and “The best thing that could happen is a fucking earthquake, let that thing float out in the Pacific.”⁴

This complete breakdown in ethics issued from the top. Leaders must possess integrity, and Skilling and Lay clearly did not. Despite their brilliance, vision, hard work, and ambition, they were unable to offer effective leadership. In the end, everyone lost, from the CEO all the way down to the line worker whose decades of savings and pension accruals disappeared almost overnight.

Just as striking, Enron’s contagious culture spread far beyond the walls of its corporate office. The company’s accounting firm, Arthur Andersen, which was complicit in letting it record dubious cash streams, collapsed soon after Enron’s bankruptcy. Numerous banks came under legal and ethical scrutiny for allowing Enron to cook the books. Subsequent investigation showed that financial institutions lent Enron money under bogus deals merely to keep their investment banking fees flowing. Skilling and Lay’s brand of leadership spawned a vast web of fraud, deception, and greed.

Good leaders know that they have the power to raise or lower ethical standards across the organization. Leaders like Greg Swinton at Ryder leverage their influence by setting a positive example based on integrity and acting with openness, consistency, and candor. The trust they foster leads to greater efficiency and cooperation. In the end, individual and group behavior reinforces the organization’s long-term interest, and everyone wins.

ZEROING IN ON INTEGRITY

In our own executive assessment practice, we always start with integrity. No one can offer effective leadership without it. But how do you tell if a person has integrity?

Without a doubt, this is one of the most difficult attributes to pinpoint in others. Unlike passion or analytical ability, for example, integrity is not always obvious or easily quantified. Moreover, a person who lacks integrity will have no qualms about lying to persuade you that he or she has it. But most of us don't judge someone's integrity based on superficial comments anyway. Rather, an opinion about someone's integrity is typically based on years of observation, or at least with first-hand knowledge of how that person behaved in a specific situation.

Nor does glancing at a résumé reveal much about a person's character. Past experience is more likely to reveal whether that person has resilience, judgment, even vision, than it is to answer difficult questions about integrity. This is because we are usually unaware of the ethical trade-offs that people might make. Past interests and decisions are hidden. True motives remain unclear.

When evaluating a potential employee, many organizations rely on references to assess integrity. They ask former colleagues generic questions, such as "Tell me about Terry. Is she pleasant to work for? Do you trust her? Does she treat people fairly?"

These are important questions, to be sure, but alone they are insufficient, as evidenced by the number of character cases that slip through the cracks. A distressing number of leaders—such as former Refco CEO Phillip Bennett, former Qwest Communications CEO Joe Nacchio, and former Illinois governor Rod Blagojevich—caused enormous damage with their ethical lapses. A cursory review of peer referencing does not go far enough to identify these potential character issues before they start to brew.

Another reason that integrity is hard to assess is that people are often hesitant to say bad things about others. They give others

the benefit of the doubt. After all, it is difficult to critically appraise someone else's character. We are more aware of deficiencies within ourselves. There is also a confidentiality issue associated with making sensitive statements about others. People naturally fear that full disclosure might come back to bite them. As a result, traditional 360-degree referencing, while very important, has significant limitations.

Almost every interviewer also has a personal approach for gauging integrity in others, a strategy that relies more on instinct than anything else. The interviewer thinks, "He seems like a straight shooter" or "I can get along with her."

We all want to find a personal comfort zone with the people we interview, but one of the problems with this approach is that it lacks consistency. It is also rather unsophisticated. If, when addressing character issues, an organization relies merely on the ad hoc efforts of a rotating slate of interviewers, the results will be mixed at best.

When we assess leaders, we combine 360-degree referencing and traditional interview questions with a technique designed to test for ethical awareness. We pose several hypothetical situations to see if the people we are interviewing can recognize subtle ethical issues where no clear rules or boundaries exist. The idea is that no amount of interview preparation can let them massage the facts. Our approach also maintains consistency by giving us a benchmark with which to compare a variety of candidates across a variety of fields.

We ask candidates to read a short case containing a potential problem. We also give them some background information and key facts or ideas to consider. We then ask the candidate how she might go about addressing the situation. Our goal is to gain a better understanding of how the leader thinks about a potential ethical dilemma. Does she recognize hidden issues involving trust, consistency, or transparency? Does she perceive how circumstances might unfairly affect others? Can she draw a connection between integrity issues and overall organizational performance?

Here is an example of the type of hypothetical situation we pose to someone we are interviewing for a leadership position:

You are the CEO of a medium-sized public company.

One day an employee walks into your office with some bad news regarding a company-organized social activity that occurred last month.

It seems that several members of the finance team were out for dinner to celebrate the end of a good quarter. Joe, a promising vice president, had a few too many drinks. He made some lewd comments, and he touched a junior employee, Susan, in an inappropriate way. The CFO (as head of the finance team) was at the dinner, although he did not witness these events; rather, he heard about it from Susan the following Monday morning.

You immediately call the CFO to your office to hear what happened. You learn that on the Monday following the dinner, the CFO and head of HR talked with Joe, who basically confirmed Susan's story. He was contrite and he personally apologized to everyone. HR also conducted a thorough investigation and determined that this incident does not pose a liability risk to the company.

Based on these developments, the CFO believes that the company should not take any further action. The CFO emphasizes that Joe is a "rising star" and probably the most valuable member of the finance team.

"I think it's water under the bridge now," he says. "What do you think?"

What follows are two actual responses that we have received. We have selected these answers because they are representative of two common—albeit different—ways of thinking about this leadership scenario. Candidate A responded:

Well, this is a difficult situation. I'd like to talk personally with the head of HR just to make sure I get all the facts straight. I'd also speak immediately with our legal counsel to confirm that we aren't facing potential liability.

As for Joe's conduct, obviously it's not acceptable even if he is a star performer, and we can't have this behavior at our company. It sounds like we were lucky this time, and that the incident passed with sincere apologies and Joe was up-front that he made a mistake. That's reassuring.

But we need to make sure this doesn't happen again. I'd order a review of our corporate code of ethics and training on sexual harassment. Joe has likely learned his lesson, but maybe we aren't doing enough as an organization to make sure that employees understand the seriousness of what he did.

Candidate B responded:

First of all, this situation is not water under the bridge. If you consider it from Susan's point of view, she is a relatively powerless junior employee, and many of her bosses are probably men. Even if she says she accepts Joe's apology, there is a good chance that she still feels taken advantage of. It's also very likely that many others in our organization have heard about the event, and probably people outside of our company too. This incident is serious.

With this in mind, Joe's termination might be warranted. What is our company's official policy? If we follow the CFO's suggestion and do nothing, I'm worried what effect that will have on other people in our company, especially Susan. Will they think that the rules work one way for some people and another way for others? I don't know how our employees will trust senior management if that is the message we are sending, and this could have a serious long-term effect on our organization.

Finally, I'm also troubled by the CFO's handling of this situation. The fact that he didn't tell me about it raises questions about his judgment. The fact that he doesn't appreciate the seriousness of Joe's conduct is also highly worrisome. What kind of signals is he sending? He might need some type of counseling, as well as other disciplinary action.

Notice that candidate B, who provided a much more astute answer, started off by explicitly recognizing the effect on Susan, whereas candidate A glossed over this point. Candidate B was not unduly influenced by Joe's star status. By contrast, candidate A called Joe's behavior unacceptable "even if he is a star," but these words rang hollow because the candidate showed almost no concern for Susan. Picking up on subtle clues in the words that a candidate uses (or does not use) is a valuable part of the assessment process.

Candidate B also demonstrated that he understood why this type of issue is so critical for the company. He could connect integrity and strong ethics with overall organizational success. Candidate A asserted that Joe's actions were "not acceptable" and that "we can't have this behavior at our company," but it was not clear that he truly grasped why.

Finally, notice that candidate B also seized on the CFO's behavior. For him, the fact that the CFO so easily dismissed the situation (he didn't even mention it to the CEO) pointed to a larger leadership question. Although this might seem obvious after lengthy consideration, a candidate who is reading the case for the first time may well gloss over it. By contrast, strong candidates are quick to zero in on such issues.

In total, these answers suggest that the two candidates had different levels of ethical awareness, and exploring this further would be necessary. The answer that candidate A gave would cause us to pay extra attention (and custom-tailor our inquiries) to peer referencing that might shed light on his integrity.

It is important to emphasize that we are not trying to predict conclusively whether a candidate has integrity. The nature of the process does not lend itself to that kind of wholesale task. But our approach does test for ethical awareness in a way that traditional interviewing or 360-degree referencing can't. Also, when a candidate's response is compared with those given by several hundred high-potential leaders, clear patterns emerge. The ones with real ethical awareness stand out above the rest.

We conclude this chapter with another hypothetical situation that we like to ask executive candidates. Imagine that you are the one being interviewed, and then determine what you would do in this situation:

You have just been hired as CEO of a major multinational electronics manufacturer. A significant portion of the company's manufacturing base is located in eastern Europe and Asia, and you are making your first visit to the region to learn more about the company's operations.

You have a meeting with Jack Smith in his office in Sofia, Bulgaria. Jack is in charge of European and Asian operations, which he runs from that office. Jack is a ten-year veteran of the company. You are very impressed with him, as well as the extent of the company's reach in that region of the world.

Near the end of your meeting, you say to Jack, with a chuckle and almost as a throwaway comment, "How do you keep away from the mafia over here?"

With a straight face, he answers, "We pay 'em."

When you ask for clarification, he explains that payments are routinely, and secretly, made to local mafia groups, and probably some terrorist groups, throughout areas of eastern

Europe, Russia, and China. “They threaten to blow up our factories or kill our workers,” Jack explains. “And forget the police—the mafia own them,” he adds. “So we pay them. That’s what everyone does over here.”

On the plane ride back to the United States, you consider what you have learned. What, if anything, should you do about it?

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