Part I

The Shadow Side of Leadership

1

The Leader's Light or Shadow

We know where light is coming from by looking at the shadows.

—Humanities scholar Paul Woodruff

What's Ahead

This chapter introduces the dark (bad, toxic) side of leadership as the first step in promoting good or ethical leadership. The metaphor of light and shadow dramatizes the differences between moral and immoral leaders. Leaders have the power to illuminate the lives of followers or to cover them in darkness. They cast shadows when they fail to meet the ethical challenges of the leadership role by (1) abusing power, (2) hoarding privileges, (3) mismanaging information, (4) acting inconsistently, (5) misplacing or betraying loyalties, and (6) failing to assume responsibilities.

A Dramatic Difference

In an influential essay titled "Leading From Within," educational writer and consultant Parker Palmer introduces a powerful metaphor to dramatize the distinction between ethical and unethical leadership. According to Palmer, the difference between moral and immoral leaders is as sharp as the contrast between light and darkness, between heaven and hell.

A leader is a person who has an unusual degree of power to create the conditions under which other people must live and move and have their being, conditions that can be either as illuminating as heaven or as shadowy as hell. A leader must take special responsibility for what's going on inside his or her own self, inside his or her consciousness, lest the act of leadership create more harm than good.[1]

Psychotherapist Carl Jung was the first social scientist to identify the shadow side of the personality. He used the term to refer to the subconscious, which could include both negative (greed, fear, hatred) and positive (creativity, desire for achievement) elements.[2] Unlike Jung and other researchers who use the shadow label to refer to the hidden part of the personality, both good and bad, Palmer equates shadow with destruction. However, Palmer and Jungian psychologists agree on one point: *If we want to manage or master the dark forces inside us, we must first acknowledge that they exist.* For this reason, Palmer urges us to pay more attention to the shadow side of leadership. Political figures, classroom teachers, parents, clergy, and business executives have the potential to cast as much shadow as they do light. Refusing to face the dark side of leadership makes abuse more likely. All too often, leaders "do not even know they are making a choice, let alone how to reflect on the process of choosing."[3]

Recently other scholars have joined Palmer in urging us to pay more attention to the dark or negative dimension of leadership. Claremont University professor Jean Lipman-Blumen uses the term *toxic leaders* to describe those who engage in destructive behaviors and who exhibit dysfunctional personal characteristics.[4] These behaviors and qualities (summarized in Table 1.1) cause significant harm to followers and organizations.

Harvard professor Barbara Kellerman objects to the positive bias of those who study and practice leadership.[5] Leadership in American society is assumed to be good. However, limiting leadership solely to good leadership ignores the reality that a great many leaders engage in destructive behaviors. Overlooking that fact, Kellerman says, undermines our attempts to promote good leadership: "I take it as a given that we promote good leadership not by ignoring bad leadership, nor by presuming that it is immutable, but rather by attacking it as we would a disease that is always pernicious and sometimes deadly."[6]

According to professor Kellerman, bad leaders can be ineffective, unethical, or both. She identifies seven types of bad leaders:

Incompetent. These leaders don't have the motivation or ability to sustain effective action. They may lack emotional or academic intelligence, for example, or be careless, distracted, or sloppy. Some can't function under stress, and their communication and decisions suffer as a result. Former International Olympic Committee president Juan Antonio Samaranch (1961–2000) is one example of an incompetent leader. Toward the end of his tenure he turned a blind eye to commercialism, drug scandals, and corruption in the Olympic movement.

Table 1.1 The Behaviors and Personal Characteristics of Toxic Leaders

Destructive Behaviors	**Toxic Qualities**
Leaving followers worse off	Lack of integrity
Violating human rights	Insatiable ambition
Feeding followers' illusions; creating dependence	Enormous egos
Playing to the basest fears and needs of followers	Arrogance
Stifling criticism; enforcing compliance	Amorality (unable to discern right from wrong)
Misleading followers	Avarice (greed)
Subverting ethical organizational structures and processes	Reckless disregard for the costs of their actions
Engaging in unethical, illegal, and criminal acts	Cowardice (won't make tough choices)
Building totalitarian regimes	Failure to understand problems
Failing to nurture followers, including successors	Incompetent in key leadership situations
Setting constituents against one another	
Encouraging followers to hate or destroy others	
Identifying scapegoats	
Making themselves indispensable	
Ignoring or promoting incompetence, cronyism, and corruption	

SOURCE: Adapted from Lipman-Blumen, J. (2005). *The allure of toxic leaders: Why we follow destructive bosses and corrupt politicians and how we can survive them.* Oxford: Oxford University Press, pp. 19–23.

Rigid. Rigid leaders may be competent, but they are unyielding, unable to accept new ideas, new information, or changing conditions. Morgan Stanley Dean Witter financial analyst Mary Meeker was one such leader. During the technology boom of the 1990s, she promoted Internet stocks such as Yahoo!, Netscape, and AOL. Millions of investors followed her advice. However, when the Internet bubble burst at the beginning of the new millennium, she continued to promote online stocks even as their values plummeted.

Intemperate. Intemperate leaders lack self-control and are enabled by followers who don't want to intervene or can't. Marion Barry Jr.'s political career demonstrates intemperate leadership in action. Barry served as mayor of Washington, DC, from 1979 to 1991. He ignored widespread corruption in his administration, perhaps in part because he was busy cheating on his wife and doing drugs. Barry was convicted of possessing crack cocaine and served 6 months in jail. After being released from prison, he was elected to the city council in 1992 and was reelected as mayor in 1994. During his administrations the district's schools and public services deteriorated while the murder rate soared.

Callous. The callous leader is uncaring or unkind, ignoring or downplaying the needs, wants, and wishes of followers. Former hotel magnate Leona Helmsley personified the callous leader. She earned the title "The Queen of Mean" by screaming at employees and firing them for minor infractions such as having dirty fingernails. Helmsley later served time for tax evasion. (She once quipped, "Only the little people pay taxes.")

Corrupt. These leaders and at least some of their followers lie, cheat, and steal. They put self-interest ahead of public interest. Former United Way of America chief William Aramony was an exemplar of this type of leader. Aramony used United Way funds to buy and furnish an apartment for his girlfriend and to pay for vacations. His top financial officers helped him hide his illegal actions. Aramony and his colleagues were convicted on fraud-related charges.

Insular. The insular leader draws a clear boundary between the welfare of his or her immediate group or organization and outsiders. Former President Bill Clinton behaved in an insular manner when he didn't intervene in the Rwandan genocide that took the lives of 800,000 in 1994. He later traveled to Africa to apologize for failing to act even though he had reliable information describing how thousands of Tutsis were being hacked to death by their Hutu neighbors.

Evil. Evil leaders commit atrocities, using their power to inflict severe physical or psychological harm. Former Cambodian dictator Pol Pot was one of modern history's most evil leaders. During his 3 years in absolute power in the

1970s, Pol Pot's Khmer Rouge army terrorized the populace through slavery, torture, execution, and murder. He was responsible for the deaths of more than 1.7 million people—one-third of the Cambodian population.

The Leader's Shadows

When we function as leaders we take on a unique set of ethical burdens in addition to a set of expectations and tasks. These dilemmas involve issues of power, privilege, information, consistency, loyalty, and responsibility. How we handle the challenges of leadership determines whether we cause more harm then good or, to return to Palmer's metaphor, whether we cast light or shadow. Unless we're careful, we're likely to cast one or more of the shadows described in this section.

THE SHADOW OF POWER

Power is the foundation for influence attempts. The more power we have, the more likely others are to comply with our wishes. Power comes from a variety of sources. The most popular power classification system identifies five power bases.[7] *Coercive power* is based on penalties or punishments such as physical force, salary reductions, student suspensions, or embargoes against national enemies. *Reward power* depends on being able to deliver something of value to others, whether tangible (bonuses, health insurance, grades) or intangible (praise, trust, cooperation). *Legitimate power* resides in the position, not the person. Supervisors, judges, police officers, instructors, and parents have the right to control our behavior within certain limits. A boss can require us to carry out certain tasks at work, for example, but in most cases he or she has no say in what we do in our free time. In contrast to legitimate power, *expert power* is based on the characteristics of the individual regardless of his or her official position. Knowledge, skills, education, and certification all build expert power. *Referent (role model) power* rests on the admiration one person has for another. We're more likely to do favors for a supervisor we admire or to buy a product promoted by our favorite sports hero.

Leaders typically draw on more than one power source. The manager who is appointed to lead a task force is granted legitimate power that enables her to reward or punish. Yet in order to be successful, she'll have to demonstrate her knowledge of the topic, skillfully direct the group process, and earn the respect of task force members through hard work and commitment to the group.

There are advantages and disadvantages of using each power type. For instance, rewards are widely accepted in Western culture but can be counterproductive if they promote the wrong behaviors (see Chapter 9) or go to the wrong people. Researchers report that U.S. workers are more satisfied and productive when their leaders rely on forms of power that are tied to the person (expert and referent) rather than on forms of power that are linked to the position (coercive, reward, and legitimate).[8] In addition, positional power is more susceptible to abuse. Coercive tactics have the potential to do the most damage, threatening the dignity as well as the physical and mental health of followers. Leaders, then, have important decisions to make about the types of power they use and when.

The fact that leadership cannot exist without power makes some Americans uncomfortable. Harvard business professor Rosabeth Kanter goes so far as to declare that power is "America's last dirty word."[9] She believes that for many of us talking about money and sex is easier than discussing power. We admire powerful leaders who act decisively but can be reluctant to admit that we have and use power.

Our refusal to face up to the reality of power can make us more vulnerable to the shadow side of leadership. Cult leader Jim Jones presided over the suicide–murder of 909 followers in the jungles of Guyana (see the "Leadership Ethics at the Movies" case in Box 1.1 for more information about Jones and his Peoples Temple). Perhaps this tragedy could have been avoided if cult members and outside observers had challenged Jones's abuse of power.[10] Conversely, ignoring the topic of power prevents the attainment of worthy objectives, leaving followers in darkness. Consider the case of the community activist who wants to build a new shelter for homeless families. He can't help these families unless he skillfully wields power to enlist the support of local groups, overcome resistance of opponents, raise funds, and secure building permits.

I suspect that we treat power as a dirty word because we recognize that power has a corrosive effect on those who possess it. We've seen how Richard Nixon used the power of his office to order illegal acts against his enemies and how corporate executives often intimidate their subordinates. Many of us are uneasy about new powers, such as the authority to conduct secret searches and monitor library records, that have been given to law enforcement officials to fight terrorism.

Unfortunately, abuse of power is an all too common fact of life in modern organizations. In one survey, 90% of those responding reported that they had experienced disrespect from a boss some time during their working careers. Twenty percent of the sample said they currently work for an abusive leader. (Complete the "Self-Assessment" in Box 1.2 to determine whether your supervisor is abusive or just tough.) "Brutal" bosses regularly engage in the following behaviors, some of which will be discussed in more detail later in the chapter.[11]

- *Deceit.* Lying and giving false or misleading information.
- *Constraint.* Restricting followers' activities outside work, such as telling them whom they can befriend, where they can live, with whom they can live, and the civic activities they can participate in.

Box 1.1

Leadership Ethics at the Movies

JONESTOWN: THE LIFE AND DEATH OF PEOPLES TEMPLE

Key Cast Members: Jim Jones, Jim Jones Jr., former Temple members and relatives

Synopsis: On November 18, 1978, 910 members of the Peoples Temple died in Guyana after drinking Kool-Aid laced with cyanide. This documentary reveals how the group's leader, Jim Jones, convinced so many to participate in mass murder–suicide. Jones started out as a social reformer, promoting racial harmony and social justice, but became increasingly paranoid and delusional. Claiming deity, he sexually exploited Temple members, controlled every aspect of their lives, and humiliated anyone who broke the rules. The film includes footage from the Jonestown compound and interviews with two members who survived the slaughter by fleeing into the jungle.

Rating: Not rated but contains mature content, disturbing images, and adult language

Themes: The shadow side of leadership, evil, the dark side of followership

- *Coercion.* Inappropriate or excessive threats for not complying with the leader's directives.
- *Selfishness.* Blaming subordinates and making them scapegoats.
- *Inequity.* Supplying unequal benefits or punishments based on favoritism or criteria unrelated to the job.
- *Cruelty.* Harming subordinates in such illegitimate ways as name calling or public humiliation.
- *Disregard.* Ignoring normal standards of politeness; obvious disregard for what is happening in the lives of followers.
- *Deification.* Creating a master–servant relationship in which bosses can do whatever they want because they feel superior.

The greater a leader's power, the greater the potential for abuse. This prompted Britain's Lord Acton to observe that "power corrupts, and absolute power corrupts absolutely." The long shadow cast by absolute power, as in the case of Pol Pot, can be seen in torture, death, starvation, and imprisonment. Psychologists offer several explanations for why concentrated power is so dangerous. First, power makes it easier for impulsive, selfish people to pursue their goals without considering the needs of others. They are likely to justify their

Box 1.2

Self-Assessment

THE BRUTAL BOSS QUESTIONNAIRE

For an assessment of your current experience of abuse by superior(s) and its possible consequences for your health, well-being, and work productivity, complete the questionnaire that follows. Then find your personal rating using the scoring information which is provided on the reverse side.

Rate your boss on the following behaviors and actions. If you agree that a statement categorizes your boss, write a number from 1 to 4, depending on the extent of your agreement. If you disagree with a statement in reference to your boss, write a number from 5 to 8, depending on the extent of your disagreement.

1	2	3	4	5	6	7	8
Strongly Agree							Strongly Disagree

1. My boss deliberately provides me with false or misleading information. ______
2. My boss treats me unfairly at times for no apparent reason. ______
3. My boss deceives me sometimes. ______
4. My boss deliberately withholds information from me that I need to perform my job. ______
5. My boss criticizes low-quality work from me. ______
6. My boss tells me how I should be spending my time when not at work. ______
7. My boss will "get" me if I don't comply with her or his wishes. ______
8. My boss humiliates me in public. ______
9. My boss calls me unflattering names. ______
10. My boss requires that her or his standards be met before giving a compliment. ______
11. My boss believes that I am generally inferior and blames me whenever something goes wrong. ______
12. My boss acts as if she or he can do as she or he pleases to me, because she or he is the boss. ______

Box 1.2 (Continued)

13. My boss treats me like a servant. _______
14. My boss expects me to dress appropriately at all times. _______
15. My boss treats me unjustly. _______
16. My boss steals my good ideas or work products and takes credit for them. _______
17. My boss will make me "pay" if I don't carry out her or his demands. _______
18. My boss displays anger publicly toward me by shouting, cursing, or slamming objects. _______
19. My boss criticizes me on a personal level rather than criticizing my work. _______
20. My boss demands that I give my best effort all the time. _______
21. My boss is tougher on some subordinates because she or he dislikes them regardless of their work. _______
22. My boss is discourteous toward me. _______
23. My boss is dishonest with me. _______
24. My boss shows no regard for my opinions. _______
25. My boss is deliberately rude to me. _______
26. My boss lies to me. _______
27. My boss misleads me for her or his own benefit. _______
28. My boss insists that I work hard. _______
29. My boss places blame for her or his failures on me. _______
30. My boss openly degrades and personally attacks me. _______
31. My boss mistreats me because of my lifestyle. _______
32. My boss demands that I constantly do high-quality work. _______
33. My boss reprimands me in front of others. _______
34. My boss deliberately makes me feel inferior. _______
35. My boss is not honest with the people who rank beneath her or him. _______
36. My boss threatens me in order to get what she or he wants. _______

Box 1.2 **(Continued)**

SCORING

Total your responses to the following questions:

#5: _______

#10: _______

#14: _______

#20: _______

#28: _______

#32: _______

TOUGH BOSS TOTAL: _______

Now total your response to the remaining thirty questions.

BAD BOSS TOTAL: _______

KEY

Tough boss total	+	*Bad boss total*	=	*Assessment of boss*
Between 36 and 48		Less than 90		Tough, but not abusive
Less than 36		Less than 90		Not particularly tough
Between 36 and 48		Between 90 and 195		Tough, with instances of abuse. Adverse effects on work and well-being may very well occur.
Any		Greater than 195		Abusive. Deteriorating mental and physical health and lowered productivity are associated with this level of mistreatment.

SOURCE: Hornstein, H. (1996). *Brutal bosses and their prey*. New York: Riverhead Books, pp. 150–152. Used by permission.

actions by claiming that their personal rights and interests take priority over obligations to others.[12] Second, those in power protect their positions by attacking those they perceive as threats. Third, powerful leaders are prone to biased judgments.[13] They generally make little attempt to find out how followers think and feel. As a result, they are more likely to hold and act on faulty stereotypes that justify their authority. Powerful people believe that they deserve their high status because powerless people aren't as capable as they are.

Power deprivation exerts its own brand of corruptive influence. Followers with little power become fixated on what minimal influence they have, becoming cautious, defensive, and critical of others and new ideas. In extreme cases, they may engage in sabotage, such as when one group of fast food employees took out their frustrations by spitting and urinating into the drinks they served customers.

To wield power wisely, leaders have to wrestle with all the issues outlined here. They have to consider what types of power they should use and when and for what purposes. They also have to determine how much power to keep and how much to give away. Finally, leaders must recognize and resist the dangers posed by possessing too much power while making sure that followers aren't corrupted by having too little.

THE SHADOW OF PRIVILEGE

Leaders almost always enjoy greater privileges than followers do. The greater the leader's power, generally the greater the rewards he or she receives. Consider the perks enjoyed by corporate CEOs, for example. Top business leaders in the United States are the highest paid in the world. Between 1993 and 2005, the average pay for chief executives of large U.S. firms quadrupled to $10.5 million (including salary, bonuses, stock, and stock option grants).[14] The paycheck of the average American was left in the dust; it barely kept pace with inflation during the same period. CEOs also eat in private dining rooms and travel around in chauffeured limousines and corporate planes.

The link between power and privilege means that abuse of one generally leads to the abuse of the other. Leaders who hoard power are likely to hoard wealth and status as well. Focused on their own desires, they neglect the needs of followers. Some particularly notable examples of CEO excess include the following:[15]

- Former Tyco CEO Dennis Kozlowski spent millions on paintings to decorate his $18-million Manhattan apartment, paying for some of this art with money from a company program developed to help employees buy Tyco stock. He then tried to avoid paying New York sales tax on his purchases. Kozlowski also collected such knickknacks as a $6,300 sewing basket and a $15,000 dog umbrella.

- Imprisoned ImClone founder Dr. Sam Waskal owned a 7,000-square-foot loft in SoHo and a place in upstate New York. He too had an eye for expensive art, purchasing works by de Kooning, Rothko, and Picasso for $20 million.

- John Rigas of Adelphia stole from the cable company's coffers and gave the money to family members.

- General Electric's Jack Welch's original retirement package (which was scaled back after public protest) included a Central Park apartment, lifetime use of the company jet, country club memberships, maid service, tickets to the opera and to New York Knicks home games, and furniture.

- Fired CEOs Henry McKinnell of Pfizer and Robert Nardelli of Home Depot walked away with severance packages worth $83 million and $210 million, respectively.

Ironically, some of the same business executives who wouldn't hesitate to spend thousands on themselves make sure that their employees have to account for every penny. Former CBS executive Lawrence Tisch once insisted that a company photographer finish every exposure on a roll of film before taking it out of his camera. Ted Turner returned letters without postmarks to the company mailroom and made the clerks cut off and reuse the stamps.[16]

Leader excess is not a new phenomenon. Ancient Chinese philosophers criticized rulers who lived in splendor while their subjects lived in poverty. Old Testament prophets railed against the political and social elites of the nations of Israel and Judah, condemning them for hoarding wealth, feasting while the poor went hungry, and using the courts to drive the lower classes from their land.

The passage of time hasn't lessened the problem but has made it worse. There are an estimated 950 billionaires in the world, with a combined wealth of $3.5 trillion. At the same time, the poorest of the poor live in a hell on Earth, deprived of such basic necessities as food, shelter, clean water, and health care. The AIDS epidemic is fueled in large part by poverty. Little money is available in the developing world for prevention efforts or AIDS medicines. Only one in five people with HIV receives medicine. As a result, the Joint United Nations Programme on HIV and AIDS estimates that, by the year 2025, the disease will take the lives of 31 million in India, 18 million in China, and as many as 100 million in Africa.[17]

Most of us would agree that leaders deserve more rewards because they assume greater risks and responsibilities, and some leaders get more than they deserve. Beyond this point, however, our opinions are likely to diverge. Americans are divided over such questions as "How many additional privileges should leaders have?" "What should be the relative difference in pay and benefits between workers and top management?" "How do we close the large gap between the world's haves and have-nots?" We'll never reach complete agreement on these issues, but the fact remains that privilege is a significant ethical burden associated with leadership. Leaders must give questions of privilege the same careful consideration as questions of power. The shadow cast by the abuse of privilege can be as long and dark as that cast by the misuse of power.

THE SHADOW OF MISMANAGED INFORMATION

Leaders have more access to information than do others in an organization. They are more likely to participate in the decision-making processes, network with managers in other units, have access to personnel files, and formulate long-term plans. Knowledge is a mixed blessing. Leaders must be in the information loop in order to carry out their tasks, but possessing knowledge makes life more complicated. Do they reveal that they are in the know? When should they release information and to whom? How much do they tell? Is it ever right for them to lie?

No wonder leaders are tempted to think ignorance is bliss! If all these challenges weren't enough, leaders face the very real temptation to lie or hide the truth to protect themselves. For instance, tobacco executives swore before Congress that smoking was safe even though they had sponsored research that said otherwise. Prominent pastor Ted Haggard tried to salvage his ministry by denying that he had sex with a male prostitute. (Case Study 1.1 describes another example of how leaders tried to cover up the truth.)

The issues surrounding access to information are broader than deciding whether to lie or to tell the truth. Although leaders often decide between lying and truth telling, they are just as likely to be faced with the questions related to the release of information. Take the case of a middle manager who has learned about an upcoming merger that will mean layoffs. Her superiors have asked her to keep this information to herself for a couple of weeks until the deal is completed. In the interim, employees may make financial commitments (home and car purchases) that they would postpone if they knew that major changes were in the works. Should she voluntarily share information about the merger despite her orders? What happens when a member of her department asks her to confirm or deny the rumor that the company is about to merge?

Privacy issues raise additional ethical concerns. E-commerce firms routinely track the activity of Internet surfers, collecting and selling information that will allow marketers to better target their advertisements. Supermarkets use courtesy cards to track the purchases of shoppers. Employers monitor employee computer keystrokes, phone calls, and e-mail messages. Hundreds of thousands of video cameras track our movements at automated teller machines, parking lots, stores, and other public places. Videotapes made for security purposes have shown up on Web sites.[18]

In sum, leaders cast shadows not only when they lie but also when they mismanage information and engage in deceptive practices. Unethical leaders

- Deny having knowledge that is in their possession
- Withhold information that followers need
- Use information solely for personal benefit
- Violate the privacy rights of followers
- Release information to the wrong people
- Put followers in ethical binds by preventing them from releasing information that others have a legitimate right to know

CASE STUDY 1.1

Hiding the Truth

Friendly Fire and the Death of Pat Tillman

In war, truth is the first casualty.

—Greek playwright Aeschylus

Former National Football League star Pat Tillman was an authentic American hero. Tillman turned down a 3-year, $3.6-million contract extension with the Arizona Cardinals to join the Army with his brother Kevin after the September 11 terrorist attacks. His determination to defend his country earned him a letter of thanks from then–Secretary of Defense Donald Rumsfeld and praise from talk show hosts and ordinary citizens.

Tillman took part in the invasion of Iraq and then was transferred to Afghanistan. On April 22, 2004, the two Tillman brothers were part of a patrol that came under enemy fire in a canyon in southeastern Afghanistan. The unit split into two sections (Kevin in one group, Pat in the other) during the battle. In the confusion, soldiers from Kevin's section began firing at Pat's group. Pat Tillman was killed while trying to stop the shooting.

Attempts to cover up the fact that Tillman died due to friendly fire began almost immediately. Fellow soldiers were ordered not to tell Kevin what happened and to burn Pat's equipment, including his protective vest. (These items are supposed to be preserved as evidence in friendly fire cases.) After the first reports about the incident went out on military radio, phone and Internet service were cut off to prevent anyone from discussing the incident. The initial casualty report said that Tillman died by enemy fire. A doctor at a field hospital reported that Tillman received cardiopulmonary resuscitation and intensive care before his life ended (even though the bullets had gone through his head). The initial press release implied that enemy forces had killed the Army Ranger, claiming that he died "when his patrol vehicle came under attack."[1]

The most blatant distortions came in Tillman's Silver Star commendation, the third most prestigious military honor. "Above the din of battle, Cpl. Tillman was heard issuing fire commands to take the fight to the enemy," the recommendation claims.[2] It also praises Tillman for getting his group through the ambush, which ignores the fact that Tillman and another soldier were killed while two others were wounded. At Tillman's well-publicized funeral, top military officials kept silent as speakers declared that the former football star had died at the hands of the Taliban.

Eventually the truth about Tillman's death came out. Army coroners refused to certify that the death was from enemy fire and asked Army criminal investigators to examine the case. The Tillman family began pressing for the facts. An Army inspector general's investigation found a "series of mistakes" in how the incident was reported but no organized attempt at a cover-up. Four soldiers were given minor punishments, and one had his military pay reduced. The inspector general criticized three generals for their actions. In congressional hearings on the matter, House committee members released an e-mail suggesting that the top-ranking general in Iraq and Afghanistan, General John Abizaid, as well as Secretary Rumsfeld, knew the true cause of Tillman's death within days.

Tillman perished at a bad time for the military, which is probably what prompted the deceit. The war in Iraq was going badly, and the prison abuse scandal at Abu Ghraib was headline news. Officials apparently hoped to stir up patriotism and support for the war while avoiding bad publicity. They used the story of Private Jessica Lynch in much the same way. The Pentagon claimed that Lynch fought back when captured by Iraqi forces and was rescued in a dramatic hospital raid. In truth, she never fired a shot (she was knocked unconscious by the crash of her vehicle), and hospital staff offered no resistance. "The story of the little girl Rambo from the hills who went down fighting is not true," Lynch says. "The bottom line is, the American people are capable of determining their own ideas for heroes, and they don't need to be told elaborate lies."[3]

Pat Tillman's Silver Star medal will not be taken back, although the wording of the commendation will be rewritten. A Pentagon spokesperson acknowledged mistakes in the case and has apologized on behalf the U.S. Army. However, the Tillman family remains bitter about the Pentagon's dishonesty and how the tragedy of Pat's death was turned into an "inspirational message" designed to bolster U.S. foreign policy.[4]

DISCUSSION PROBES

1. Were Army leaders justified in trying to conceal the real cause of Tillman's death? Why or why not?

2. Does Pat Tillman remain a hero despite the fact that he died by friendly fire?

3. Was this a case of a series of mistakes by Army officials or an organized cover up?

4. Would you punish high-ranking officers and officials, including the Secretary of Defense, for what happened in this case?

5. What leadership ethics lessons do you take from this case?

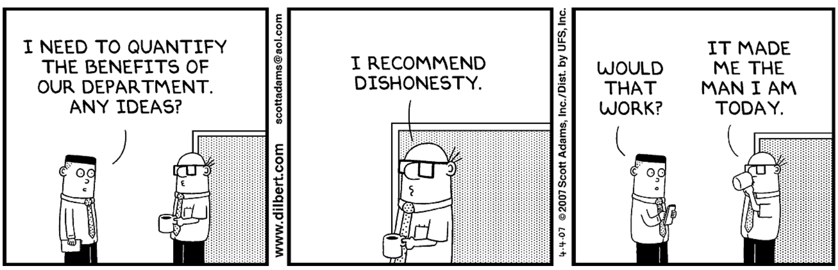
NOTES

1. Colle, Z. (2007, April 21). Evidence of cover-up key to Tillman hearings. *The San Francisco Chronicle,* p. A1. Retrieved June 5, 2007, from LexisNexis Academic database.

2. Colle, Z., & Collier, R. (2007, April 25). Lawmakers see cover-up, vow to probe Tillman death. *The San Francisco Chronicle,* p. A1. Retrieved June 5, 2007, from LexisNexis Academic database.

3. Cornwell, R. (2007, April 26). Secrets and lies: How war heroes returned to haunt Pentagon. *The Independent* (London). Retrieved June 5, 2007, from LexisNexis Academic database, para. 7.

4. Collier, R., & Epstein, E. (2007, March 27). Tillmans assail Pentagon report. *The San Francisco Chronicle,* p. A1. Retrieved June 5, 2007, from LexisNexis Academic database.



Patterns of deception, whether they take the form of outright lies or hiding or distorting information, destroy the trust that binds leaders and followers together. Consider the popularity of conspiracy theories, for example. Many citizens are convinced that the Air Force is hiding the fact that aliens landed in Roswell, New Mexico. They also believe that law enforcement officials are deliberately ignoring evidence that John F. Kennedy and Martin Luther King were the victims of elaborate assassination plots. These theories may seem illogical, but they flourish in part because government leaders have created a shadow atmosphere through deceit. It wasn't until after the first Gulf War that we learned that our "smart bombs" weren't really so smart and missed their targets. The president and other cabinet officials apparently overstated the danger posed by Saddam Hussein in order to rally support for the second Gulf War.

Leaders must also consider ethical issues related to the image they hope to project to followers. In order to earn their positions and to achieve their objectives, leaders carefully manage the impressions they make on others. Impression management can be compared to a performance on a stage.[19]

Leader–actors carefully manage everything from the setting to their words and nonverbal behaviors in order to have the desired effect on their follower audiences. For example, presidential staffers make sure that the chief executive is framed by visual images (Mt. Rushmore, the Oval Office) that reinforce his messages and his presidential standing. Like politicians, leaders in charge of such high-risk activities as mountain climbing and whitewater kayaking also work hard to project the desired impressions. In order to appear confident and competent, they stand up straight, look others in the eye, and use an authoritative tone of voice.

Impression management is integral to effective leadership because followers have images of ideal leaders called prototypes.[20] We expect that the mountain climbing guide will be confident (otherwise we would cancel the trip!), that the small-group leader will be active in group discussions, that the military leader will stay calm under fire. The closer the person is to the ideal, the more likely it is that we will select that person as leader and accept her or his influence. Nonetheless, a number of students find impression management ethically troubling. They value integrity and see role playing as insincere because the leader may have to disguise his or her true feelings in order to be successful.

There is no doubt that impression management can be used to reach immoral ends. Many demagogues, such as Huey Long and George Wallace, have used public speaking performances to rally audiences to destructive causes, for instance. It would be impossible to eliminate this form influence, however. To begin, others form impressions of us, whether we are conscious of that fact or not. They judge our personality and values by what we wear, for instance, even if we don't give much thought to what we put on in the morning. Most of us use impression management to accurately convey our identities, not to conceal them or to manipulate others.

When considering the morality of impression management, we need to consider its end products. Ethical impression managers meet group wants and needs, not just the leader's. They spur followers toward highly moral ends. These leaders use the impressions to accurately convey information, to build positive interpersonal relationships, and to facilitate good decisions. Unethical impression managers produce the opposite effects, subverting group wishes and lowering purpose and aspiration. These leaders use dysfunctional impression management to send deceptive messages, undermine relationships, and distort information, which leads to poor conclusions and decisions.[21]

THE SHADOW OF INCONSISTENCY

Leaders deal with a variety of constituencies, each with its own set of abilities, needs, and interests. In addition, they like some followers better than others. The Leader–Member Exchange (LMX) theory is based on the notion that leaders develop closer relationships with one group of followers.[22] Members of the "in-group" become advisors, assistants, and lieutenants. High levels of trust, mutual influence, and support characterize their exchanges with the leader. Members of the "out-group" are expected to carry out the basic requirements of their jobs. Their communication with the leader is not as trusting and supportive. Not surprisingly, members of in-groups are more satisfied and productive than members of out-groups. For that reason, LMX theorists have begun to explore ways in which leaders can develop close relationships with all of their followers.

Situational variables also complicate leader–follower interactions. Guidelines that work in ordinary times may break down under stressful conditions. A professor may state in her syllabus that five absences will result in flunking a class, for instance. However, she may have to loosen her standard if a flu epidemic strikes the campus.

Diverse followers, varying levels of relationships, and elements of the situation make consistency an ethical burden of leadership. Should all followers be treated equally even if some are more skilled and committed or closer to us than others? When should we bend the rules and for whom? Shadows arise when leaders appear to act arbitrarily and unfairly when faced with questions such as these, as in the case of a resident assistant who enforces dormitory rules for some students but ignores infractions committed by friends. Of course, determining whether a leader is casting light or shadow may depend on where you stand as a follower. When Michael Jordan played for the Chicago Bulls, Coach Phil Jackson allowed him more freedom than other players. Jordan was comfortable with this arrangement, but his teammates weren't as enthusiastic.

Issues of inconsistency can also arise in a leader's relationships with those outside the immediate group or organization. For example, until recent reforms, Merrill Lynch and other investment banks provided important clients with benefits denied ordinary investors. Investment banks manage the stock offerings of companies going public for the first time. Bankers gave executives doing business with their firms the opportunity to buy initial public offering (IPO) shares before the general public could. During the stock market boom of the 1990s, IPO stocks often increased dramatically in value in a matter of hours or days, creating a financial windfall for these privileged insiders.[23]

Misgivings about the current system of financing political elections stem from the fact that large donors can buy access to elected officials and influence their votes. Laws often favor those who have contributed the most, as in the case of the nation's oil companies. Critics charge that congressional representatives who receive more money from oil companies oppose legislation that would reduce demand for oil or increase clean energy supplies.[24]

THE SHADOW OF MISPLACED AND BROKEN LOYALTIES

Leaders must weigh a host of loyalties or duties when making choices. In addition to their duties to employees and stockholders, they must consider their obligations to their families, local communities, professions, larger society, and the environment. Noteworthy leaders put the needs of the larger community above selfish interests. For example, outdoor clothing manufacturer Timberland receives praise for its commitment to community service and social responsibility. Company leaders pay employees for volunteer service, partner with community groups, and support nonprofit organizations through the sale of selected products. In contrast, those who appear to put their interests first are worthy of condemnation. Executives at United Airlines were harshly criticized for profiting at the expense of employees and travelers. The company filed for bankruptcy, which allowed executives to dump pension funds, void labor contracts, and cut costs. A quarter of the workforce was laid off, and those remaining took significant pay cuts. Customer service suffered as a result. When United emerged from bankruptcy, 400 executives (some of whom had helped mismanage the airline into bankruptcy) ended up with 8% of the new firm, estimated to be worth more than $300 million. CEO Glenn Tilton alone received $40 million in stock and stock options.[25] (For another example of how the few benefited at the expense of the many, see the "It Pays to Be an Executive" case study at the end of this chapter.)

Loyalties can be broken as well as misplaced. If anything, we heap more scorn on those who betray our trust than on those who misplace their loyalties. Many of history's villains are traitors: Judas Iscariot, Benedict Arnold, Vidkun Quisling (he sold out his fellow Norwegians to the Nazis), and Tokyo Rose, a U.S. citizen who broadcast to American troops on behalf of the Japanese in World War II. Enron CEO Ken Lay is a contemporary example of a leader who violated the trust of followers (see Case Study 1.2). Lay betrayed employees by assuring them that the firm was in good shape even as it was headed towards collapse.

Mergers and acquisitions are common forms of corporate betrayal. Executives of the new conglomerate typically assure consumers that they will benefit from the merger. Quality and service will improve, not suffer, they claim. Employees are told that the best elements of their current companies will be maintained. Sadly, these promises are broken more often than not. Quality and service decline as the new firm cuts costs to pay for its expansion. Important corporate values such as family support and social responsibility are lost and benefits slashed. As egregious as these corporate examples of betrayal appear, they pale in comparison to cases of Catholic priests who sexually abused children in their care. As you'll see in Chapter 4, clergy in Boston, Portland, New Mexico, and elsewhere used their positions as respected spiritual authorities to gain access to young parishioners for sexual gratification. Bishops and cardinals failed to stop the abusers. In far too many cases they let offending priests continue to minister and to have contact with children. Often church officials transferred pedophiles without warning their new congregations about these priests' troubled pasts.

The fact that I've placed the loyalty shadow after such concerns as power and privilege should not diminish its importance. Philosopher George Fletcher argues that we define ourselves through our loyalties to families, sports franchises, companies, and other groups and organizations.[26] Political strategist James Carville points out that the significance of loyalty is reflected in the central role it plays in drama. "Take apart any great story," he claims, "and there's loyalty at its heart."[27] As evidence of this fact, he points to Shakespeare's *Romeo and Juliet, The Godfather* trilogy, the HBO series *The Sopranos,* and even episodes of *The Andy Griffith Show* (Carville doesn't claim to have excellent taste).

You may think that Carville overstates his case but the fact remains that loyalty is a significant burden placed on leaders. In fact, well-placed loyalty can make a significant moral statement. Such was the case with Pee Wee Reese. The Brooklyn Dodger never wavered in his loyalty to Jackie Robinson, the first black player in the major leagues. In front of one especially hostile crowd in Cincinnati, Reese put his arm around Robinson's shoulders in a display of support.[28]

Pay particular attention to the shadow of loyalty as you analyze the feature films highlighted in each chapter. In most of these movies, leaders struggle with where to place their loyalties and how to honor the trust others have placed in them.

THE SHADOW OF IRRESPONSIBILITY

Earlier we noted that the breadth of responsibility is one of the factors distinguishing between the leader and follower roles. Followers are largely responsible for their own actions or, in the case of a self-directed work team, for their peers. This is not the case for leaders. They are held accountable for the performance of their entire department or unit. However, determining the extent of a leader's responsibility is far from easy. Can we blame a college coach for the misdeeds of team members during the off season or for the excesses of the university's athletic booster club? Are clothing executives responsible for the actions of their overseas contractors who force workers to work in sweatshops? Do employers owe employees a minimum wage level, a certain degree of job security, and safe working conditions? If military officers are punished for following unethical orders, should their supervisors receive the same or harsher penalties? Rabbis and pastors encourage members of their congregations to build strong marriages. Should they lose their jobs when they have affairs?

Leaders act irresponsibly when they fail to make reasonable efforts to prevent followers' misdeeds, ignore or deny ethical problems, don't shoulder responsibility for the consequences of their directives, deny their duties to followers, or hold followers to higher standards than themselves. We don't hold coaches responsible for everything their players do. Nonetheless, we want them to encourage their athletes to obey the law and to punish any misbehavior. Most of us expect the Gap, Nike, and Banana Republic to make every effort to treat their overseas labor force fairly, convinced that the companies owe their workers (even the ones employed by subcontractors) decent wages and working conditions. We generally believe that officers giving orders are as culpable as those carrying them out, and we have little tolerance for religious figures and others who violate their own ethical standards. For that reason, conservative talk show host Rush Limbaugh came under attack for urging harsh punishments for drug users at the same time he was addicted to prescription painkillers.[29]

Many corporate scandals demonstrate what can happen when boards of directors fail to live up to their responsibilities. Far too many boards in the past were rubber stamps. Made up largely of friends of the CEO and those doing business with the firm, they were quick to approve executive pay increases and other management proposals. Some directors appeared interested only in collecting their fees and made little effort to understand the company's operations or finances. Other board members were well intentioned but lacked expertise. Now federal regulations require that the chair of the audit committee be a financial expert. The compensation, audit, and nominating committees must be made up of people who have no financial ties to the organization. These requirements should help prevent future abuses, but only if directors take their responsibilities seriously.

These, then, are some of the common shadows cast by leaders faced with the ethical challenges of leadership. Identifying these shadows raises an important question: *Why is it, when faced with the same ethical challenges, that some leaders cast light and others cast shadows?* In the next chapter we'll explore the forces that contribute to the shadow side of leadership. But first read Box 1.3 to learn about the ethical demands facing followers.

Implications and Applications

- Understanding the dark (bad, toxic) side of leadership is the first step in promoting good or ethical leadership.
- The contrast between ethical and unethical leadership is as dramatic as the contrast between light and darkness.
- "Toxic" or "bad" leaders engage in destructive behaviors. They may be ineffective, unethical, or both. Common types of bad leaders include incompetent, rigid, intemperate, callous, corrupt, insular, and evil.
- Certain ethical challenges or dilemmas are inherent in the leadership role. If you choose to become a leader, recognize that you accept ethical burdens along with new tasks, expectations, and rewards.

Box 1.3

Focus on Follower Ethics: The Dark Side of Followership

There is a dark side to followership, just as there is to leadership. Followers walk on the dark side when they fail to meet the moral responsibilities of their roles. Important ethical challenges confronted by followers include the following.

The Challenge of Obligation. Followers contribute to a shadowy atmosphere when they fail to fulfill their minimal responsibilities by coming to work late, taking extended breaks, not carrying out assignments, undermining the authority of their leaders, stealing supplies, and so on. However, they can also contribute to an unethical climate by taking on too many obligations. Employees forced to work mandatory overtime and salaried staff at many technology and consulting firms work 70–80 hours a week, leaving little time for family and personal interests. They experience stress and burnout, and their family relationships suffer.

Followers also have ethical duties to outsiders. Carpenters and other tradespeople have an obligation to buyers to build high-quality homes and to meet construction deadlines, for example. Government employees owe it to taxpayers to spend their money wisely by working hard while keeping expenses down.

These questions can help sort out the obligations we owe as followers.

- Am I doing all I reasonably can to carry out my tasks and further the mission of my organization? What more could I do?
- Am I fulfilling my obligations to outsiders (clients, neighbors, community, customers)? Are there any additional steps I should take?
- Am I giving back to the group or organization as much as I am taking from it?
- Am I carrying my fair share of the workload?
- Am I serving the needs of my leaders?
- Am I earning the salary and benefits I receive?
- Can I fulfill my organizational obligations and, at the same time, maintain a healthy personal life and productive relationships? If not, what can I do to bring my work and personal life into balance?

The Challenge of Obedience. Groups and organizations couldn't function if members refused to obey orders or adhere to policies, even the ones they don't like. As a result, followers have an ethical duty to obey. However, blindly following authority can drive followers to engage in illegal and immoral activities that they would never participate in on their own.

Obeying orders is no excuse for unethical behavior. Therefore, deciding when to disobey is critical. To make this determination, consider the following factors: Does this order appear to call for unethical behavior? Would I engage in this course of action if I weren't ordered to? What are the potential consequences for others if these directions are followed? For myself? Does obedience threaten the mission and health of the organization as a whole? What steps should I take if I decide to disobey?

The Challenge of Cynicism. There is a difference between healthy skepticism, which prevents followers from being exploited, and unhealthy cynicism, which undermines individual and group performance. Followers darken the atmosphere when

Box 1.3 (Continued)

they become organizational cynics. That's because cynicism destroys commitment and undermines trust. Collective performance suffers as a result. Few give their best effort when they are disillusioned with the group. Cynical employees feel less identification with and commitment to their employers while being more resistant to change. The greater the degree of cynicism, the more effort is directed toward attacking the organization at the expense of completing the task at hand.

The Challenge of Dissent. Expressing disagreement is an important ethical duty of followership. Followers should take issue with policies and procedures that are inefficient, harmful, or costly and with leaders who harm others or put the organization at risk. Doing so serves the mission of the organization while protecting the rights of its members and the larger community. Although followers contribute to shadowy environment when they fail to speak up, they can go too far by generating a constant stream of complaints. Ethical followers know when to speak up (not every issue is worth contesting) and when to wait until a more important issue comes along. They must also determine whether the problem is significant enough to justify going outside the organization (becoming a whistleblower) if leaders don't respond.

The Challenge of Bad News. Delivering bad news is risky business. Followers who tell their bosses that the project is over budget, that sales are down, or that the software doesn't work as promised may be verbally abused, demoted, or fired.

Organizations and leaders pay a high price when followers hide or cover up bad news, deny responsibility, or shift blame. Leaders can't correct problems they don't know exist. Failure to address serious deficiencies such as accounting fraud, cost overruns, and product contamination can destroy an organization. Leaders who don't get feedback about their ineffective habits (micromanaging, poor listening skills, indecisiveness) can't address these behaviors. Denying accountability and shifting blame undermine trust and shift people's focus from solving problems to defending themselves.

To avoid contributing to a shadow environment, followers must deliver bad news and accept responsibility for their actions. They also need to pay close attention to how they deliver bad tidings, selecting the right time, place, and message channel. Significant problems should be brought to the leader's attention immediately, when he or she is most receptive, and delivered face to face whenever possible, not through e-mail, faxes, and other less personal channels.

SOURCE: Adapted from Johnson, C. E. (2007). *Ethics in the workplace: Tools and tactics for organizational transformation.* Thousand Oaks, CA: Sage, Ch. 7.

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- *Power* may not be a dirty word, but it can have a corrosive effect on values and behavior. You must determine how much power to accumulate, what forms of power to use, and how much power to give to followers.
- Abuse of privilege is the evil twin of power. If you abuse power, you'll generally overlook the needs of followers as you take advantage of the perks that come with your position.
- Leaders have access to more information than followers. In addition to deciding whether or not tell the truth, you'll have to determine when to reveal what you know and to whom, how to gather and use information, and so on.
- A certain degree of inconsistency is probably inevitable in leadership roles, but you'll cast shadows if you are seen as acting arbitrarily and unfairly.
- As a leader you'll have to balance your needs and the needs of your small group or organization with loyalties or duties to broader communities. Expect condemnation if you put narrow, selfish concerns first.
- Leadership brings a broader range of responsibility, but determining the limits of accountability may be difficult. You'll cast a shadow if you fail to make a reasonable attempt to prevent abuse or to shoulder the blame, deny that you have a duty to followers, or hold others to a higher ethical standard than you are willing to follow.

For Further Exploration, Challenge, and Self-Assessment

1. Create an ethics journal. In it, describe the ethical dilemmas you encounter as a leader and as a follower, how you resolved them, how you felt about the outcomes, and what you learned that will transfer to future ethical decisions. You may also want to include your observations about the moral choices made by public figures. Make periodic entries as you continue to read this text.
2. Rosabeth Kanter argues that "powerlessness corrupts and absolute powerlessness corrupts absolutely." Do you agree? What are some of the symptoms of powerlessness?
3. What factors do you consider when determining the extent of your loyalty to an individual, group, or organization?
4. Evaluate the work of a corporate or nonprofit board of directors. Is the board made up largely of outside members? Are directors qualified? Does the board fulfill its leadership responsibilities? Write up your findings.
5. Which shadow are you most likely to cast as a leader? Why? What can you do to cast light instead? Can you think of any other ethical shadows cast by leaders?
6. Look for examples of unethical leadership behavior in the news and classify them according to the six shadows. What patterns do you note?
7. What is the toughest ethical challenge of being a follower? How do you meet that challenge?

CASE STUDY 1.2
Casting Shadows at Enron

In the 1990s Enron was one of the fastest-growing, most admired companies in the United States. From its humble origins as a regional natural gas supplier, the Houston firm grew to become the seventh largest company of the Fortune 500. In 2000, the company employed 21,000 people, and its stock hit an all-time high of $90 per share.

Enron appeared regularly on lists of the nation's best companies, receiving accolades for its innovative climate. The firm focused on energy transportation, trading, and financing and developed new ways to market nontraditional commodities. Founder and CEO Kenneth Lay was profiled in a number of business magazines, gave generously to local charities, and golfed regularly with presidents Clinton and Bush.

Rising stock values and revenues were the glue that held the company together. To keep debt (which would lower the price of the stock by lowering earnings) off the books, chief financial officer Andrew Fastow created special purpose entities. These limited partnerships with outside investors enable firms to share risks while hiding deficits. Although special purpose entities are legal and used in many industries, Enron's partnerships didn't have enough outside investors. In essence, the company was insuring itself. Employees who managed these investments made millions while acting against the best interests of the firm.

In 2001 losses in overseas projects and a major subsidiary caused a financial meltdown. Enron's stock price dropped, and the company was unable to back its guarantees. Financial analysts and journalists who had previously sung the company's praises began to question Enron's financial statements. In the midst of the unfolding disaster, Chairman Lay repeatedly assured employees that the stock was solid. At one point he declared, "Our performance has never been stronger; our business model has never been more robust; our growth has never been more certain." At the same time he was making these optimistic pronouncements, Lay and other officials were calling Bush cabinet members to ask them to intervene on the firm's behalf. Arthur Andersen auditors then forced the company to restate earnings, and the Securities and Exchange Commission began to investigate.

Enron filed for bankruptcy in December 2001, and in January 2002 Lay resigned. Both Fastow and his deputy pled guilty for their roles in creating and managing the illegal partnerships. Enron energy traders also entered guilty pleas for manipulating electricity markets. In 2006 both Skilling and Lay were convicted of conspiracy and fraud for lying about the company's financial health and condoning illegal accounting practices. Lay died of a heart attack before entering jail. Skilling is currently serving a 24-year sentence. The government is seeking millions in restitution from Skilling and from Lay's estate and his wife, Linda.

Greed, pride, lack of internal controls, pressure to make quarterly earnings projections, and other factors all played a role in Enron's collapse. However, most of blame must go to the firm's executives, who failed to meet each of the challenges of leadership described in this chapter. Leaders at Enron cast shadows in the following ways:

Abuse of Power. Both Lay and Jeffrey Skilling (Lay's short-term replacement) wielded power ruthlessly. Lay routinely demoted vice-chairs who disagreed with him, and Skilling frequently intimidated subordinates.

Excess Privilege. Excess typified top management at Enron. Lay told a friend, "I don't want to be rich; I want to be world-class rich." At another point he joked that he had given his wife, Linda, a $2 million decorating budget for a new home in Houston, which she promptly exceeded. Lay and other executives were able to unload their shares even as the 401(k) accounts of employees (made up largely of Enron stock) were wiped out.

Mismanaged Information. Enron officials manipulated information to protect their interests and to deceive the public. Both executives and board members claimed that they weren't aware of the company's off-the-books partnerships and shaky financial standing. However, both Skilling and Lay were warned that the firm's accounting tactics were suspect, and the Senate Permanent Subcommittee on Investigations concluded, "Much that was wrong with Enron was known to the board."

Inconsistent Treatment of Internal and External Constituencies. Five hundred Enron officials received "retention bonuses" totaling $55 million after the firm filed for bankruptcy. At the same time, laid-off workers received only a fraction of the severance pay they had been promised. Outsiders also received inconsistent treatment. The company was generous with its friends. As the top contributor to the Bush campaign, Enron used this leverage to nominate friendly candidates to serve on the Securities and Exchange Commission and the Federal Energy Regulatory Commission. Company representatives also helped set federal energy policy that deregulated additional energy markets for Enron's benefit. In contrast, critics of the company could expect retribution. Investment bankers who expressed the least bit of doubt about Enron lost underwriting business from the firm. Critical stock analysts lost their jobs.

Misplaced and Broken Loyalties. Leaders at Enron put their loyalty to themselves above everyone else with a stake in the company's fate: stockholders, business partners, ratepayers, local communities, and foreign governments. They also abused the trust of those who worked for them. Employees felt betrayed in addition to losing their jobs and retirement savings.

Irresponsibility. Enron's leaders acted irresponsibly by failing to take needed action, failing to exercise proper oversight, and failing to shoulder responsibility for the ethical miscues of their organization. CEO Lay downplayed warnings of financial improprieties, and some board members didn't understand the company's finances or operations. Too often managers left employees to their own devices, encouraging them to achieve financial goals by any means possible. Neither CEO stepped forward to accept blame for what happened after the firm's collapse. Lay invoked Fifth Amendment privileges against self-incrimination; Skilling claimed ignorance.

DISCUSSION PROBES

1. Which attitudes and behaviors of Enron's leaders do you find most offensive? Why?
2. Did one shadow caster play a more important role than the others in causing the collapse of Enron? If so, which one and why?
3. How much responsibility should the board of directors assume for what happened at Enron?
4. What similarities do you see between what happened at Enron and at other well-known companies accused of ethical wrongdoing?
5. What can be done to prevent future Enrons?
6. What leadership ethics lessons do you draw from this case?

SOURCES: Adapted from Johnson, C. E. (2002). *Enron's ethical collapse: Lessons from the top*. Paper delivered at the National Communication Association convention, New Orleans, LA; Johnson, C. (2003). Enron's ethical collapse: Lessons for leadership educators. *Journal of Leadership Education, 2*. Retrieved February 7, 2004, from http://www.fhsu.edu/jole/issues/archive_index.html.

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CASE STUDY 1.3

It Pays to Be an Executive

The Stock Options Scandal

The 1990s saw the advent of stock options designed to tie executive compensation to company performance. Firms grant CEOs and other corporate officers the option to buy company stock at a set price. If the price of the stock goes up, the CEO and his or her colleagues can then sell their shares at the higher price, pocketing the difference. However, if the stock price goes down, the options lose their value.

CEOs soon found ways to manipulate stock options through a process called backdating. In backdating, the date of the stock option grant is shifted to increase the value of the options. Typically the new date falls when the share price was at a low point or just before the release of positive news that boosted the company's stock price. Undisclosed backdated options violate federal rules against false financial disclosures. They can inflate corporate profits and result in the underpayment of taxes. Earnings have to be reduced when backdating is uncovered, lowering the stock price and hurting investors.

The backdating scandal is still unfolding, but at last count more than one hundred publicly traded companies were under federal investigation, with others doing internal reviews. More than $5 billion in profits has been restated. A number of CEOs have been forced out, and executives at Brocade Communication Systems and Comverse Technology have been indicted. Backdating was particularly popular at high-tech companies (Mercury Interactive and McAfee are among the other technology firms under scrutiny) because executives in the Silicon Valley often sit on each other's boards. In this tightly knit social circle, the practice spread rapidly, and few were willing to challenge the behavior of their colleagues. However, questions have also been raised about the timing of stock options at Costco, Barnes & Noble, UnitedHealth Group, Staples, and Home Depot.

In some cases, CEOs changed the dates of the options on their own or recorded dates different from those set out by the board. In other cases, boards ordered the dates changed or gave executives the power to do so. Employees also played a role in the scandal. Members of the accounting and human resource departments, for example, recorded the date changes and helped in the cover up. At Brocade Communication Systems, maker of network storage switches, human resource managers altered the employment records of several new executives to it make appear that they joined the company later than they actually did. This inflated the value of their stock options because share prices had dropped since they were hired. Managers at other firms were asked to start employees as part timers so they could get options sooner as the stock price went up.

University of Iowa professor Erik Lie, who conducted the study that uncovered the widespread manipulation of stock options, believes that executives and boards knew that the practice was unethical. "A lot of executives thought that, although they knew it was not acceptable, they were not likely to be detected. In some cases [directors] got bad advice. In some cases they knew it was wrong. In most cases, people knew it was not quite ethical."[1]

DISCUSSION PROBES

1. What proportion of the blame for the scandal do you assign to the CEOs involved? The boards of directors? Employees?
2. How can future backdating scandals be prevented?
3. Do you think that the practice of granting stock options should be outlawed? Why? Why not?
4. How can corporations ensure that both leaders and followers are rewarded when companies perform well?
5. What can be done to encourage executives to put the interests of shareholders ahead of their own interests?
6. What leadership ethics lessons do you draw from this case?

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