CAMBRIDGE

Cambridge University Press
978-1-108-84119-1 — Leading With Values
Neil Malhotra , Ken Shotts
Excerpt
More Information

1

Core Values

Why We Lead, Why We Follow

In the summer of 1997, Apple Computer was struggling and on the verge of bankruptcy. The stock was trading at $3.56 per share. The company's last blockbuster product was the Macintosh personal computer in 1984, and since then the Microsoft operating system and IBM PC clones had established market dominance. In a desperate move, Apple decided to bring back cofounder Steve Jobs as CEO, twelve years after he was ousted from Apple in a power struggle with then-CEO John Sculley.

Dressed in cargo shorts, Birkenstock sandals, and his trademark black shirt, Jobs addressed his employees shortly before the launch of the iMac and the "Think Different" advertising campaign.[1] This was in the midst of the dot-com boom of the late 1990s, when Apple engineers could have deserted the company to join one of the many hot startups in Silicon Valley. Employees were likely excited by Jobs's return, but also uncertain.

Jobs's speech is now famous in Silicon Valley circles:

> To me, marketing is about values . . . Our customers want to know: Who is Apple and what is it that we stand for? Where do we fit in this world? And what we are about isn't making boxes for people to get their jobs done, although we do that well. We do that better than almost anybody in some cases. But Apple's about something more than that. Apple at the core – its core value is that we believe that people with passion can change the world for the better.

Jobs's point is that core values are central to why people buy a product. His articulation of Apple's central core value – captured in its famous "Think Different" campaign – is basically this: Albert Einstein, Martin Luther King Jr., Amelia Earhart, John Lennon, and Mahatma Gandhi would have used Apple products. Apple celebrates iconoclastic,

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE
Cambridge University Press
978-1-108-84119-1 — Leading With Values
Neil Malhotra , Ken Shotts
Excerpt
More Information

disruptive, rebellious thinkers and doers who change the world for the better. It's not a company for worker drones. And Apple customers and employees like to think of themselves this way as well. Without this set of core values, it is unlikely that people would be willing to pay large price premiums for Macs, iPhones, iPads, and Apple Watches.

Jobs said that marketing is about core values, but we will go further. The fundamental premise of this book is that *leadership is about core values*. To be an effective leader, you need to be someone others want to follow. People follow others for many reasons – because they are dynamic, competent, or charismatic. Yet, what makes a leader most compelling are their values. People are inspired by leaders whose decisions are based on a core set of values that resonate.

"Think Different" was a great advertising campaign, but Apple's customers weren't the most important audience for Jobs's speech. They weren't even in the room. The key audiences were investors, engineers, and managers, who cared deeply about the direction of the company. When Jobs returned as CEO, he articulated a vision for how he would lead, and what the company was all about. Under his leadership, Apple launched a string of revolutionary products, and by 2011 it was the most valuable publicly traded company in the world.

That same year, at the age of fifty-six, Steve Jobs died of pancreatic cancer. People spontaneously gathered in front of his house in Palo Alto and at Apple stores around the world to mourn and to place flowers, notes, candles, and, yes, apples.[2] That's not the normal reaction to the death of a business tycoon. In some ways it felt more like the death of a beloved pop star, princess, or prophet.

But not everyone was ready to nominate Jobs for sainthood. According to multiple books and articles drawing on firsthand accounts of his behavior, his managerial style left a lot to be desired.[3] Like many visionaries, he was a deeply flawed human being.

Apple's corporate conduct also came under intense scrutiny. The company's products were criticized for being environmentally destructive, addictive for users, and designed for premature obsolescence. The company's use of offshoring to dodge taxes was criticized as a selfish way of taking advantage of loopholes in the tax code. The company was caught colluding with Google and others in a "no poaching" agreement to hold down wages of engineers. Most serious, and most damaging, were criticisms of Apple's supply chain. Labor rights activists alleged that Foxconn and other key suppliers in China relied on child labor, coercion, punishingly long hours, low wages, and brutal working conditions. Multiple

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE
Cambridge University Press
978-1-108-84119-1 — Leading With Values
Neil Malhotra , Ken Shotts
Excerpt
More Information

workers committed suicide by jumping off the top of company dormitories at the factories that manufactured Apple's stylish, elegantly designed iPhones.[4]

The criticisms of Apple have been hotly debated, and our goal in mentioning them is not to definitively assess the company's behavior. Rather, our point is to note that the criticisms were fundamentally driven by *values*. So values aren't just for personal leadership. They are also central for leadership of companies at a time when customers, employees, governments, and citizens increasingly care about how they affect society, not simply whether they make money for their shareholders. A company's standing and reputation depend crucially on its values. Like many great leaders, Jobs left behind a complex legacy that was quite messy because of conflicts over values.

At Apple, the criticisms did not go unnoticed. Tim Cook, who took over as CEO during the final stages of Jobs's battle with cancer, set a markedly different tone for the company's relationship with society. In part, he did this by publicly articulating the company's longstanding commitments to values such as LGBT rights and user privacy. The company also made substantial changes to its business practices. It ramped up its efforts to monitor and improve conditions in its suppliers' factories. And it made major strides in its environmental impacts, to the point that Greenpeace, which had previously been quite critical, rated it as the world's most environmentally friendly tech company.[5]

For Apple, which now ranks among the most admired companies in the world, values aren't just about the design or marketing of the company's products. They're also about how the company relates to society.

VALUES AND LEADERSHIP

What are values? They are beliefs and convictions about what is important in life and how to live and interact with others. They can help us decide right from wrong, guide the best way to live, and choose one action over another. At a deeper level, they determine our answers to big-picture questions about our lives and careers: What do you want to be known for? When you die, how do you want to be remembered? While you're alive, how do you want to relate to people around you? How do you want your company to treat its employees and customers? What sort of impact do you want to have in the world?

For many people, values are deeply personal. Your values may be based on strong religious convictions. They may be influenced by

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE
Cambridge University Press
978-1-108-84119-1 — Leading With Values
Neil Malhotra , Ken Shotts
Excerpt
More Information

philosophy, stories, and literature. They probably stem from cultural traditions. They may reflect your family history and life experiences, especially those involving loss, struggle, or injustice. And they may build on what you've learned from your loved ones. Each person has their own story and path that leads to their personal values.

Because they come from so many different sources, values are inherently *subjective:* they are personally held and people do not all agree on one "correct" set of values. However, values are also, in the words of the historian Yuval Noah Harari, *inter-subjective*: Each person's values are commonly held by some others as well.[6] This is what gives values their power – they aren't just the quirky tastes of individuals, but rather are deeply meaningful to groups of people defined by cultures, religions, nations, and organizations. Of course, this also makes leading with values challenging, because groups of people can disagree about values. One group's values can be viewed as deeply problematic, and even abhorrent, from the perspective of others.

Fortunately, organizations don't require perfect alignment on values in order to succeed. Effective leaders are those who, in the absence of perfect alignment, are adept at identifying commonalities and building on them. Leaders are successful if they can understand and communicate their own core values, persuade their followers (while at the same time being open to persuasion), and manage value conflicts among people in their organizations. This book is about leading organizations with our values – that is, with principle and purpose. Doing so not only makes leaders more ethical, it also makes them more effective.

Although we will focus mainly on examples from the business world, this book is meant for anyone who leads other people. In addition to CEOs of large corporations, this includes military officers, teachers, high school basketball coaches, ministers, product managers, doctors, and many others. Understanding one's own values is crucial regardless of the scale of leadership. And the central lessons of this book apply within any sort of organizational structure, including governments and nonprofits.

OUR APPROACH

This book is the product of our experiences at the Stanford Graduate School of Business (GSB), where, for the past decade, we have developed and taught a required class on business ethics for MBAs and mid-career

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-108-84119-1 — Leading With Values
Neil Malhotra , Ken Shotts
Excerpt
More Information

Master's students, as well as sessions on values-based leadership for senior executives.

Business ethics isn't high on most people's list of classes they want to take. Indeed, the concept of business ethics might strike you as an oxymoron, a hopeless cause, a fig leaf for greedy capitalists, a boring academic version of compliance training, a vehicle for politically correct indoctrination, or an unrealistic fantasy of a world without tradeoffs. If you have any of these reactions, you're not alone. Coming into our class, many of our students have them too.

But over the years we've seen that, although our students are skeptical, and although they seek wealth, power, and success (after all, they're in business school!), the overwhelming majority of them have a strong desire to live and lead according to their values. They also want to understand each other's values, including those they disagree with. When they graduate, they want to join companies and take on roles that are consistent with their core values. And over the course of their careers they want to build and lead companies and organizations that embody their values and have positive impacts on society. To gain admission to the Stanford GSB, one must answer the following essay question: "What matters most to you, and why?" In many ways, this is the central question any leader – indeed, any human – must answer. People's answers to this question are constantly evolving, a journey rather than a fixed destination.

Our goal in this book, as in our class, is simple: to help you think about values and act and lead according to them. To do this, we will explore values at four levels.

- At a *personal* level, we will help you examine your own values and commitments, where they come from, and what they imply for your career and life decisions.
- At an *interpersonal* level, we will help you understand the values of others, as well as the emotional, rational, and cultural underpinnings of those values.
- At an *organizational* level, we will analyze how rules, incentives, and informal norms influence people's actions, and even their values.
- At a *societal* level, we will analyze how social institutions embody values, not just by setting limits on acceptable behavior, but also by structuring companies' incentives to respect or ignore the well-being of different stakeholders.

In addition to exploring values, this book is about how to act and lead with them. For this, good intentions aren't enough. It's also crucial to use

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-108-84119-1 — Leading With Values
Neil Malhotra , Ken Shotts
Excerpt
More Information

effective strategies. There are many different ways to lead with your values, and the approach that works best for you will depend on your personality, your role, your culture, your organization, and the values themselves. That said, throughout this book, we will offer tips and pointers that our students have found useful and that we hope will also be useful for you. To be clear, these strategies are not cookie-cutter recipes, but rather guidelines to help you develop you own, personalized leadership and organizational plan.

At a personal level, we will consider strategies and habits for living your life and making decisions in accordance with your values. At an interpersonal level, we will discuss how to articulate your views to others while respecting their convictions. At an organizational level, we will discuss how to design institutions to encourage people to adhere to a company's values. And at a societal level, we will analyze strategies for interacting with stakeholders and governments in ways that are both effective and ethical.

When we say that leadership is about core values, we do not mean to suggest there aren't other important aspects of being an effective leader. Entire books have been written about power, empathy, creativity, delegation, negotiation, and resilience, among many other topics. The goal of this book is not to cover every aspect of leadership. Rather, we focus on core values because they have become an increasingly important aspect of leadership in society.

INTELLECTUAL FOUNDATIONS

In this book we will use two sets of tools to understand values-based leadership: *descriptive ethics* and *normative ethics*. Descriptive (or behavioral) ethics is the study of how people actually make ethical choices. The focus is not on whether a course of action is right or wrong, but rather on *why* people make the ethical choices they do in business settings. Descriptive ethics is rooted in moral and social psychology, but also touches on fields such as cultural anthropology, as it has been argued that humans' moral nature is rooted in both evolution and cultural transmission. Descriptive ethics can help you understand actions of key stakeholders whose motivations stem from moral concerns, predict how others may evaluate your actions, and increase your self-awareness of how you react in various situations. The psychological constraints of ethical decision-making help us understand why people sometimes make bad decisions that are inconsistent with their values.

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-108-84119-1 — Leading With Values
Neil Malhotra , Ken Shotts
Excerpt
More Information

We will also discuss normative ethics, which is the study of what makes an action (or a person) ethical or unethical. Normative ethics is the study of values, drawing from numerous traditions: art, literature, religion, and philosophy. Although we will not cover all possible values, we will touch on themes that are common across many philosophies and religions: harm, fairness, duty, rights, distribution, and liberty. We will focus on cases where there is not a clear "win-win" outcome. You don't need to read a book to tell you to take advantage of win-win situations. Rather, the key to leadership is managing difficult tradeoffs among stakeholders, when different values guide you in different ways. This is sometimes frustrating for managers since there isn't a clear answer or model they can apply as in finance or accounting. However, the reason why good leadership is so important, and so rare, is precisely because skilled leaders can grapple with ambiguous and uncertain situations.

Some people claim it's only important to study descriptive ethics or normative ethics in isolation, and see little value in the other approach. For example, in their book *Blind Spots*, psychologists Max Bazerman and Ann Tenbrunsel write: "Being taught which ethical judgment you should make is unlikely to improve your ethicality. By contrast, the lens of behavioral ethics should prove useful for those who wish to be more ethical human beings but whose judgments don't always live up to their ideals and expectations."[7] Similarly, in *The Righteous Mind*, psychologist Jonathan Haidt says: "The worship of reason, which is sometimes found in philosophical and scientific circles, is a delusion. It is an example of faith in something that does not exist."[8]

We reject this view if the goal is to be a well-rounded, thoughtful leader. Descriptive and normative ethics work together and reinforce one another in important ways. Without a core set of values from normative ethics, it is impossible to have a coherent and consistent framework to make tough decisions. And without an understanding of descriptive ethics, it is difficult to act on your values. Effective leaders both understand the right course of action that is consistent with their values, and the pitfalls and constraints of human psychology.

Throughout this book, we will also draw on a third field: political economy. This is the study of institutions, or an understanding of how businesses fit within society at large. A simplistic view of this relationship is the shareholder value model, which dominated business education in the 1970s and 1980s. In that view, the government acts on behalf of citizens to set the "rules of the game," and each company operates within these rules to achieve a single objective: maximizing long-run profits for its shareholders.

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE
Cambridge University Press
978-1-108-84119-1 — Leading With Values
Neil Malhotra , Ken Shotts
Excerpt
More Information

Over the years, this view has become increasingly untenable. Big business used to be a highly respected institution both in the United States and around the globe, but numerous ethical lapses, as well as instances of outright lawbreaking, have undermined this trust. A few prominent examples include Enron's accounting scandal, Theranos's fake blood testing technology, Purdue Pharma's pushing of addictive opioids, Volkswagen's manipulation of emissions testing, and the adverse effects of social media platforms such as Facebook and Twitter on democratic institutions. The 2008 financial crisis greatly decreased trust in business elites and contributed to populist revolts across the globe.

Hence, it is important for individual leaders to understand the broader political and social environment of business. Firms are no longer expected just to serve their shareholders, but also to be accountable to other stakeholders, including employees, customers, suppliers, citizens, civil society, and the media. Moreover, the "rules of the game" are not set in stone, but rather are determined by governments that are responsive to a variety of different constituencies, including voters, activists, and firms themselves. Participating in this process in a way that is both principled and effective requires a sophisticated understanding of societal values and institutions.

TYPES OF DILEMMAS

In teaching our class at Stanford, we have found that it is useful to discuss situations where *everyone agrees* on what is the right or wrong thing to do, as well as situations where people can *reasonably disagree*. Both types of situations are important for values-based leadership.

There are some courses of action that are clearly wrong. Pretty much everyone agrees that it's not acceptable to engage in sexual harassment, defraud shareholders, use racially discriminatory business practices, or sell extremely unsafe products to unsuspecting consumers. But even in situations where everyone agrees on the right thing to do, some individuals and organizations engage in behavior that is known to be wrong. In this book we will explain why that happens. A key takeaway is that unethical behavior is often not due to the malice of evil people, although that is certainly sometimes a factor. Rather, as we will discover, numerous psychological biases and phenomena can lead ordinarily good people to engage in unethical behavior. We will also discuss practical ways for leaders to rectify courses of action that are clearly wrong.

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE
Cambridge University Press
978-1-108-84119-1 — Leading With Values
Neil Malhotra , Ken Shotts
Excerpt
More Information

In other situations, well-intentioned people can reasonably disagree, because they come to the table with different sets of values. Delving into these issues is also important for a values-based leader. Critically analyzing controversial business decisions allows us to clarify our own values, understand others' perspectives, learn how to persuade, and achieve compromise. Again, a core theme of this book is that people are not binary (good or evil). Rather, good people can legitimately come to different conclusions about the right thing to do.

HANDLING DISAGREEMENT

To get at values disagreements, the topics that we will cover include a lot of hot-button issues. That is intentional. Values-based leadership isn't just for easy situations; it also requires leading and engaging with people when things get contentious.

A key skill in doing this is to identify the nature of a disagreement, especially whether it is about facts or about values. In a heated discussion, people often try to make any sort of argument that will bolster their side, and get so caught up in the moment that they can't even tell whether they are disagreeing about facts or values. This is important to sort out, because disagreements about facts and values are fundamentally different.

Take, for example, the debate about raising the minimum wage. Economic theory states that increasing the floor on wages increases unemployment because employers won't be willing to hire as many workers. There are disagreements about how elastic this relationship is – that is, whether an increase in the minimum wage causes a large or small decrease in employment – but economists collect data all the time to help resolve these debates.

It is harder to resolve debates that are about differences in values. For example, if increasing the minimum wage benefits workers who have a job but hurts consumers, businesses, and those who cannot find employment, what should the government do? There is no obviously correct way to decide whose interests to prioritize. The answer depends on values.

Disagreements about values can be extremely difficult to resolve. As much as you might want to convince someone that their values are wrong and they should instead adopt your values, that's a pretty tough goal to achieve. (If you find it easy, we suggest that you set aside your business career and instead become an evangelist, whether for a religion, a political party, or a social cause. Also, and more seriously, this is one reason we don't try very hard to convince our students or you, the reader, to agree

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE
Cambridge University Press
978-1-108-84119-1 — Leading With Values
Neil Malhotra , Ken Shotts
Excerpt
More Information

with our own personal strongly held values. Both of us would make pretty lousy evangelists.)

Realizing that a disagreement is about values should change the nature of the conversation. As a first step, you can try to understand the other person's core convictions, treat them with respect, and see the issue from their perspective. In doing so, you will likely be able to identify some commonalities and points of agreement. You may even be able to win them over to your side; not by getting them to change their values, but rather by showing that the course of action you want to take is actually consistent with their own values.

THE JOURNEY AHEAD

Here's a roadmap of where we are going. The next few chapters discuss descriptive ethics, or how people (including you, the reader, and us, the authors) actually make ethical decisions. The analysis starts inside the deep subconscious of the mind, then moves outward toward individual conscious processes, and then further outward into the social environment. In these chapters, we aim to convince you of three key psychological facts: People's moral decisions are powerfully influenced by their initial gut reactions (Chapter 2); self-deception and rationalizations can make it easier for people to behave in ways that violate the law, corporate policies, and their own principles (Chapter 3); and people's behavior is powerfully influenced by their social environment, including authority figures and perceived social norms (Chapter 4).

Our goal in this part of the book is not to criticize human beings for hypocrisy and moral failures. That might be fun, and even entertaining, but it has few practical implications. Rather, once we understand the psychological constraints of ethical decision-making, we can learn to design organizations in ways that address these constraints. Leadership is of course about motivation and inspiration. But an underrated aspect of being a good leader is designing a good set of institutions, rules, and incentives, which is a central theme of this book.

We then turn to normative ethics, or the set of values we should use to make decisions and decide whether a course of action is right or wrong. Our approach is not to tell you to believe in a particular set of normative principles. Rather, we aim to convince you that you, and others around you, routinely make arguments about consequences, motives, and fairness. Given this, it is important to have philosophical frameworks to

© in this web service Cambridge University Press www.cambridge.org