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—Daniel Goleman,
Author of *Emotional Intelligence*

Moral Intelligence

Enhancing Business Performance
& Leadership Success

Doug Lennick • Fred Kiel, Ph.D.

Foreword by Richard Boyatzis
Co-author of *Primal Leadership*

Praise for Moral Intelligence

“*Moral Intelligence* is excellent reading for new entrants to the business world as well as experienced managers. I found numerous examples that were right on point with actual events that I have experienced in over 40 years of managing. It was also helpful to have the topics presented in the context of current events that hold the readers’ interest. This book should be on the reading list of every student regardless of their career choice.”

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“This book identifies the traits which identify value-oriented corporate leaders and provides a practical primer to a business person to identify and emulate these critical traits. It is essential reading for anyone who believes that this is the way the world is going.”

—Mike Phillips, Chairman, Russell Investment Group

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—Keith Reinhard, Chairman, DDB Worldwide and President, Business for
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To our wives, Beth Ann Lennick and Sandy Kiel, who have helped us fine-tune our own moral compasses over the years—and to our children, who always lovingly challenge us to live in alignment! Alan, Mary, and Joanie (Doug) and Kelly, Amy, Bryn, Anna, Jordan and Freda (Fred)—and to our parents, whose early nurturing provided our foundation—Albert and Martha (deceased) Lennick and Orville and Mabel Kiel (both deceased).

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CONTENTS

Foreword.....	xxiii
Introduction.....	xxxi

PART ONE MORAL INTELLIGENCE

Chapter 1	Good Business.....	3
Chapter 2	Born to Be Moral.....	19
	What the Best Leaders Believe	20
	A Visit to the Nursery.....	21
	Nature Versus Nurture.....	22
	Growing Up Moral.....	23
	Learning to Be Responsible.....	23
	When Things Go Wrong.....	24
	Inside Your (Moral) Brain.....	25
	It's All in Your Head.....	26
	The Moral Map of Your Brain.....	29
	Why We're Good and Why We're Bad.....	30
	So What Went Wrong?.....	31
	Moral Software.....	33

Chapter 3 Your Moral Compass.....37

- Embracing Universal Principles.....41
- Discovering Your Values.....43
- The Morality of Values.....45
- Beliefs.....49
- Identifying Your Beliefs.....51
- Goals.....53
- Why Leaders Love Goals.....57
- Your Goals58
- Put It in Writing.....58
- Behavior.....59

Chapter 4 Staying True to Your Moral Compas.....63

PART TWO DEVELOPING MORAL SKILLS

Chapter 5 Integrity.....79

- Acting Consistently with Principles, Values,
and Beliefs.....80
- Telling the Truth.....82
- Standing Up for What Is Right.....87
- Keeping Promises.....89

Chapter 6 Responsibility.....93

- Taking Responsibility for Personal Choices.....95
- Admitting Mistakes and Failures.....97
- Embracing Responsibility for Serving Others.....100

Chapter 7 Compassion and Forgiveness.....105

- Actively Caring About Others.....106
- Letting Go of Your Own Mistakes.....109
- Letting Go of Others’ Mistakes.....112

Chapter 8 Emotions.....115

- Self-Awareness.....117
- Understanding Your Thoughts.....119
- Personal Effectiveness.....121
- Deciding What to Think.....121
- Self-Control.....123
- Nurturing Emotional Health.....123
- Interpersonal Effectiveness.....127
- Empathy.....128
- Misplaced Compassion.....129
- Respecting Others.....132
- Getting Along With Others.....135

PART THREE MORAL LEADERSHIP

Chapter 9 The Moral Leader.....141

Chapter 10 Leading Large Organizations.....157

- The Fabric of Values.....157
- Is There Such a Thing as a Morally Intelligent Organization?.....159
- The Morally Intelligent Organization—
 - An Aerial View.....160
 - Morally Intelligent Policies.....161
 - The Principles that Matter Most.....163
 - Organizational Integrity.....163
 - The Responsible Organization.....166
 - The Compassionate Organization.....173
 - The Forgiving Organization.....176
 - Recruiting for Values.....178
 - Reinforcing Values Starts at the Top.....179
 - The Power of Formal Rewards.....180
 - Success Stories.....182
 - Ideal Versus Real.....183
 - Values and the Global Organization.....183

Chapter 11	Moral Intelligence for the Entrepreneur.....	185
	Moral Values in Small Organizations.....	190
	Last Words About Business Start-Ups.....	204
Epilogue	Becoming a Global Moral Leader.....	207
	Raising the Stakes.....	208
	Watch Your Wake.....	209
	Give Back.....	210
	Create the Future.....	211
	A Global Business Opportunity.....	212
	Conclusion.....	214
Appendix A	Strengthening Your Moral Skills.....	215
	A Look in the Mirror.....	216
	Using the MCI.....	217
	The Right Frame of Mind for Completing the MCI..	217
	Scoring and Interpreting Your MCI.....	217
	Prioritizing Your Moral Development Efforts.....	218
	The Road Less Traveled.....	219
	The 80/20 Rule.....	219
	Your Moral Development Plan.....	220
	Putting Your Moral Development Plan into Practice.	222
	Breaking Bad Habits.....	223
	Reward Yourself for Positive Change.....	223
	Surround Yourself with Positive People.....	224
	Do I Really Need to Change?.....	224
	Books, Audio, and Video Media.....	225
	Workshops.....	226
	Personal Counseling.....	226
	Executive Coaching.....	226
Appendix B	Moral Competency Inventory (MCI).....	227

Appendix C Scoring the MCI.....235
 Moral Competencies Worksheet.....238
 What Your Total MCI Score Means.....238

Appendix D Interpreting Your MCI Scores.....241
 Total MCI Score (Alignment Score).....242
 Highest and Lowest Competency Scores.....243
 Individual Item Scores.....243
 Reality Testing.....244
 Do Your Scores Matter?.....245
 Now What?.....246

Index.....249

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Doug Lennick

Doug Lennick's career as an executive, sales manager, and a developer of people is legendary. Today, in addition to his work as a founding member of the Lennick Aberman Group, Doug continues to work directly with Ken Chenault, CEO of American Express and Jim Cracchiolo, CEO of American Express Financial Advisors. Although no longer full time, Doug retains the title of EVP at American Express. As a senior advisor to Ken and Jim, Doug's focus is on workforce culture and performance. As a leader, a coach, and a mentor, Doug has taught thousands how to be successful in both their personal and professional lives.

In the early 1990s, Doug was one of two (the other being Jim Mitchell) senior managers at American Express responsible for championing, developing, and implementing the Emotional Competence training program that was recognized by the Consortium for Research on Emotional Intelligence in Organizations as a model program. Doug's work and American Express's Emotional Competence program were recognized in Daniel Goleman's *Working with Emotional Intelligence*

and in Tony Schwartz' *Fortune* magazine article on the same topic. In *The Power of Purpose*, Richard Leider referred to Doug as the “spiritual leader” of the company.

Doug lives in Edina, Minnesota, with his wife, Beth Ann, and their youngest daughter, Joan. Doug's son Alan is an actor and a financial advisor living in New York City with his wife Sari, and Doug's oldest daughter, Mary, attends Trinity College in Hartford, Connecticut.

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One of the “founding fathers” of the field of executive coaching, Fred began challenging senior executives in the mid-1970s to improve their leadership skills. Trained as a Ph.D. counseling psychologist, he left the private practice world in the mid-1980s and has since devoted his full-time career to the field now known as executive coaching. He serves as the coach to several CEOs. He is working on his next book, *What CEOs Believe and How It Impacts the Bottom Line*.

In 1987, he formed a partnership with Eric Rimmer in the UK and by 1991, he and Eric joined forces with Kathryn Williams to form KRW International, which has grown into a boutique of mostly Ph.D.-level coaches, internationally recognized for their expertise in the leadership demands of the C-Suite.

Fred lives on his organic farm in Southeastern Minnesota, in the midst of cold running trout streams and Amish farms, along with his wife, Sandy and youngest daughter, Freda. Sandy is the innkeeper for the Inn at Sacred Clay Farm—their country inn bed and breakfast with five luxury guest rooms and meeting space for small groups.

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Kathleen Jordan, Ph.D.

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Kathy has a Ph.D. in Counseling and Human Systems from the University of Florida. After working for large organizations (AT&T Bell Laboratories and later Harvard Business School Publishing Corporation) she has flourished as an independent consultant and is now a partner with the Lennick Aberman Group.

Kathy lives and kayaks in the Boston area. Her daughter Erin is a senior at Vassar.

We wish to give a special thanks to Orlo Otteson, our original “cracker-jack” researcher who, over four years, helped us successfully tackle the mountainous job of reviewing the vast literature on this subject.

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FOREWORD

BUILDING A BETTER CULTURE

There are few issues with more significant impact on life in and out of organizations today than that of moral action. Crusades and jihads are moral righteousness taken to harmful and even evil extents—hurting others and demanding homogeneity of beliefs. The moral righteousness involved in trying to fix, save, or punish others has led to some of the most horrible episodes in human existence. Beyond the tragic loss of life, there is the subjugation of the human spirit. There is the loss of dreams and possibilities—the loss of spirit. Ironically, this travesty of moral imperialism comes at the same time as people worldwide are voicing the need for more spirituality and religion.

Most of us know right from wrong. In hundreds of studies of the characteristics that differentiate outstanding from average leaders from their less effective counterparts (both average and poor performers), integrity has never appeared to distinguish high performers. Is this evidence of a morally bankrupt system? No. It is that the moments of “outegrity” are so egregious and shocking that we become preoccupied

with them. In the process, we miss the many tests of our morality and humanity that we face each day. For example, deciding how to promote a product or service is enacted in the context of one's values and an organizational culture that encourages consistency with a set of shared beliefs and norms.

The essential challenge of moral intelligence is not knowing right from wrong, but doing versus knowing. There are people who are suffering from mental illness and a small percentage of the population that are psychopaths or sociopaths. All of these people may not "know" right from wrong. But most of us are not in that category. So why don't we act appropriately more often? Most of us do—most of the time. Of the hundreds of decisions we make each day, most of us consider what is "right," what will be better and help our community, organization, and fellow humans. But we don't always agree on what is right.

Values and Operating Philosophy

This is where values and philosophy come into play. Our values are based on beliefs and determine our attitudes. A value typically includes an evaluation (i.e., good or bad designation) of an object or subject. Sets of values form proscriptions and prescriptions (i.e., statements of what *not* to do and what *to do*) that guide our daily life. Values also affect how we interpret and perceive things and events around us. But decades of research on values have shown little correlation to behavior.¹

To understand people's actions, we have to look behind specific values to uncover how an individual determines value. This can be called a person's "operating philosophy." Research into typical operating philosophies has resulted in a test that allows us to measure a person's

1. Michael Hechter. "Values research in the social and behavioral sciences." In Michael Hechter, Lynn Nadel, and Richard E. Michod, (eds.). *The Origin of Values*. New York: Aldine de Gruyter, 1993.

relative dominance among three different ways to determine the value of a act, a project, a decision, how to spend your time, and so forth.² Our philosophy is the *way* we determine values.

For example, a consultant lists “family” as a dominant value, but still spends five days a week away from his wife and two children, traveling for his job. He says he’s enacting his value by providing enough money for his family’s needs. By contrast, a manufacturing manager who also lists “family” as his dominant value has turned down promotions so he can have dinner each night with his wife and children.

The difference between those two men might be in how aware they are of their true values, how aligned their actions are with those values, or in the way they *interpret* their values. Accordingly, they reveal deep differences in how each values people, organizations, and activities. Such differences may reflect disparate operating philosophies—the most common of which are pragmatic, intellectual, and humanistic.³ And although no one philosophy is “better” than another, each drives people’s actions, thoughts, and feelings in distinctive ways.

2. Gordon W. Allport, P.E. Vernon, and Gardner Lindzey, *Study of Values*. Boston: Houghton Mifflin, 1960.; Chris Argyris and Don Schon, *Theory in Practice Learning*. San Francisco, CA: Jossey-Bass, 1982.; Clyde Kluckhohn. “Values and Value-Orientations in the Theory of Action.” In Talcott Parson and E.A. Shils, eds. *Toward a General Theory of Action*. Cambridge, MA: Harvard University Press, 1951. pp. 388-433.; Florence Kluckhohn and Fred Strodtbeck. *Variations in Value Orientations*. Evanston, IL: Row, Peterson & Co, 1961.; Milton Rokeach, *The Nature of Human Values*. New York: Free Press, 1973.; Shalom H. Schwartz, “Universals in the Content and Structure of Values: Theoretical Advances and Empirical Tests in 20 Countries,” *Advances in Experimental Social Psychology*, volume 25. NY: Academic Press, 1992. pp. 1-65.; Michael Hechter, “Values Research in the Social and Behavioral Sciences,” In Michael Hechter, Lynn Nadel, and Richard.E. Michod, eds. *The Origin of Values*. New York: Aldine de Gruyter, 1993. pp. 1-28.
3. “Assessing Your Operating Philosophy: The Philosophical Orientation Questionnaire” measures the relative dominance of each of these three for the person. Richard E. Boyatzis, Angela J. Murphy, and Jane V. Wheeler, “Philosophy as a Missing Link Between Values and Behavior,” *Psychological Reports*, 86 (2000): pp. 47-64.

The central theme of a pragmatic philosophy is a belief that *usefulness* determines the worth of an idea, effort, person, or organization.⁴ People with this philosophy often measure things to assess their value, and believe that they're largely responsible for the events of their lives. No surprise, then, that among the emotional intelligence competencies, pragmatics rank high in self-management. Unfortunately, their individualistic orientation often—but not always—pulls them into using an individual contribution approach to management.

The central theme of an intellectual philosophy⁵ is the desire to understand people, things, and the world by constructing an image of how they work, thereby providing them some emotional security in predicting the future. People with this philosophy rely on logic in making decisions, and assess the worth of something against an underlying “code” or set of guidelines that stress reason. People with this outlook rely heavily on cognitive competencies, sometimes to the exclusion of social competencies. You might hear someone with an intellectual philosophy say, for example: “If you have an elegant solution, others will believe it. No need to try to convince them about its merits.” They can use a visionary leadership style, if the vision describes a well-reasoned future.

4. The Pragmatic Operating Philosophy emerged from “pragmatism” (as reflected in the works of John Dewey, William James, Charles Sanders Peirce, and Richard Rorty,), “consequentialism” (as reflected in the works of C.D. Johnson, and P. Pettit), “instrumentalism” (as reflected in the works of John Dewey), and “utilitarianism” (as reflected in the works of Jeremy Bentham, and John Stuart Mill). See the Boyatzis, Murphy, and Wheeler article cited earlier for the full references.
5. The Intellectual Operating Philosophy emerged from “rationalism” (as reflected in the works of Rene Descartes, Gottfried Wilhelm Leibniz, Benedict de Spinoza), and the various philosophers claiming rationalism as their etiological root, such as Georg Wilhelm Friedrich Hegel and Jurgen Habermas, as well as the philosophical structuralists (Claude Levi-Strauss and Jean Piaget), and postmodernists (Friedrich Nietzsche). See the Boyatzis, Murphy, and Wheeler article cited earlier for the full references.

The central theme of a humanistic philosophy is that close, personal relationships give meaning to life⁶. People with this philosophy are committed to human values; family and close friends are seen as more important than other relationships. They assess the worth of an activity in terms of how it affects their close relations. Similarly, loyalty is valued over mastery of a job or skill. Where a pragmatist's philosophy might lead her to "sacrifice the few for the many," a humanistic leader would view each person's life as important, naturally cultivating the social awareness and relationship management competencies. Accordingly, they gravitate toward styles that emphasize interaction with others.

Each one of us believes in these three value orientations (i.e., pragmatic value, intellectual value, and human value). But most of us will prioritize three value orientations differently at different stages in our lives.

The point is that we have to be more aware both *of* our values and *how* we value—our philosophy. We need to be sensitive to those who have different values and different philosophies if we are to live together and make the world a better place. And we need to be sensitive to such differences if we are to have adaptive, resilient, and innovative organizations. Diversity brings us innovation, but only if we are open to it and respect it.

In this book, Doug Lennick and Fred Kiel define **moral intelligence** as, "the mental capacity to determine how universal human principles should be applied to our values, goals, and actions." They argue we are "hard wired" to be moral but often stray from the path. Within each of us are the values and basis for our moral compass. Each of us should pay attention to our moral compass often—more often than we do.

6. The Human Operating Philosophy emerged from "communitarianism" (W. F. Brundage), "hermeneutics" (Hans-Georg Gadamer), "humanism" (Francesco Petrarch and R.W. Sellars), and "collectivism" (R. Burlingame and W.H. Chamberlin).

Lennick and Kiel's exploration of this topic could not have come at a more important time.

Cultural Relativism and Moral Horizons of Significance

We are exposed to the vast differences in the world on the Internet, television, movies, and newspapers. We see it in our organizations and schools. We see it walking down the street of most cities of the world. Is every culture and subgroup within it assured that its values and philosophy are "OK" with the rest of us? Maybe not.

In his 1991 book, *The Ethics of Authenticity*, McGill University Professor and prominent philosopher, Charles Taylor, claimed that cultural relativism and postmodernism both violated basic ethical standards.⁷ He claimed that cultural relativism ("everyone has their own morality based on their situation and culture") taken to its ultimate conclusion becomes moral anarchy. It breeds a form of egocentrism and selfishness. It suggests everyone is in their own world. Similar to the argument in *Moral Intelligence*, Taylor suggests that there are, among humans and society, "moral horizons of significance." These are the universals that Lennick and Kiel propose are so crucial to organizational success. We know it is wrong to kill another human. But we can be brought to that point by contingencies. Is it acceptable to kill someone to defend your family? To get food for yourself? To take their shirt or sneakers because you like them and cannot afford to buy them? Because they annoy you? Because they have insulted your faith? Taylor's concept is central to the application of the ideas in this book. How do we determine what exceptions to moral universals are justified and which show a lack of moral intelligence?

7. Charles Taylor. *The Ethics of Authenticity*. Cambridge: Harvard University Press, 1991.

But this brings us back to whose values and philosophy are right or more right than the others? Without a high degree of moral intelligence, Lennick and Kiel illustrate in their book with marvelous and moving stories, we fall back into fighting to defend our own views as best—and imposing them on others.

In deconstructing the components of moral intelligence, Lennick and Kiel show us how four clusters of skills integrate to form this capability: integrity, responsibility, compassion and forgiveness, and emotions. They offer many ideas as to how we can use our moral intelligence to evoke moral intelligence in others. Their combined effect will be more effective organizations. Why? First, we will be proud of where we work and for what it stands. Therefore, we will feel more committed to the organization, its culture, and vision. Third, we will access and utilize more of our own talent (and that of others around us) because we are free from guilt and shame. And fourth, it is the right thing to do!

Believing and Belonging

There is another crucial business impact from values, philosophy, and collective moral intelligence—they form the basis of our organizational vision, purpose, and culture. We want to believe in what we are doing. We want to feel that we are contributing and our work has some meaning. But looming labor pool demographics and skill shortages suggest that, as McKinsey and Company said, we are in a “war for talent.”⁸ This will become a battle for the hearts and minds (and even the spirit) of people your organization wishes to attract, keep, and motivate. Over the course of the next decades, an organization’s vision, sense of purpose, and culture will become even more significant recruitment differentiators to discerning job applicants.

8. Elizabeth Chambers, Mark Foulon, Helen Hanfield-Jones, Steven Hankin, and Edward Michaels, III. *The War for Talent. The McKinsey Quarterly*, #3, 1998.

Moral Intelligence

In the following pages, you will be provoked into reflecting on your own beliefs and style of using them. You will be inspired by reading about effective executives with high moral intelligence. You will be ashamed and embarrassed reading about ineffective executives who do not seem to be able to spell moral intelligence, nonetheless, live it. The apparent simplicity of their argument and smoothness of their writing style should not be misunderstood. This material is deep and significant. The impact of moral intelligence is much more than the long-term success of your organization. It is the preservation of our civilization and species.

—Richard E. Boyatzis
January 31, 2005

INTRODUCTION

George Kline was a venture capitalist. For those who knew him in the business world, he seemed to be a person of high integrity and truly “Minnesota nice.” But in 2003, George was sentenced to six and a half years in federal prison and fined \$5.25 million for insider trading. His two sons were also convicted of felonies. News reports at the time recounted how trading stock tips over coffee breaks at the IDS Center in downtown Minneapolis had mushroomed into a massive deception that engulfed George, his sons, and several business associates.

Contrast this to Craig Ueland’s story. Craig is the CEO of the Russell Investment Group in Tacoma, Washington, a highly respected and admired international financial services company with over \$125B in assets under management. It is owned by Northwestern Mutual in Milwaukee. Craig told us that when he was in college, it occurred to him that it would be useful for him to decide what principles and values he would honor as he entered his business career. He was an undergraduate at Stanford at the time and said he can still recall where he was walking on campus when he had this insight. Craig explained, “I decided that I would live by three principles. First, when

faced with a major decision, I would try to do what was best for society, next what was best for the business and finally, I would consider my own needs. Secondly, I decided that until I was 30 (later he changed this to age 35), when faced with a career decision, I would choose the opportunity that allowed me to learn the most and secondarily would consider the money involved.” Then Craig told us his third principle. “I vowed that I would take all my vacations!” This formula has obviously worked very well for Craig. He’s at the peak of his career, is happily married, and is a very engaged father for his two small children.

When George and Craig were both young college students, we imagine it would have been difficult to see any major differences between them—both from good homes, both very ambitious, and both excited about moving into a business career. But Craig deliberately charted his life course in a way that George apparently neglected. One is now the CEO of a major global business and the other is participating in a government-sponsored residential program—a federal prison camp!

In the mid-1990s, well before the scandals of Enron and WorldCom and before the dot.com bubble burst, we had a conversation both authors vividly recall. Doug was then executive vice president, Advice and Retail Distribution for American Express Financial Advisors. Doug was well-known for developing a high performing sales force of approximately 10,000 financial advisors and was an early champion of emotional intelligence skills training at American Express. Fred, a pioneer in the field of executive coaching, was a psychologist and co-founder of a leading executive development company and then as now, actively engaged in helping senior executives improve their personal performance as leaders.

As we talked, we realized that we had some common ideas about the ingredients of high performance that we were both struggling to conceptualize. We agreed on the importance of emotional intelligence—the constellation of self-awareness, self-management, social

awareness, and relationship management skills that are now commonly regarded as critical to success in the workplace.¹ We discovered, though, that neither of us thought emotional intelligence was sufficient to assure consistent, long-term performance.

In the course of nearly 30 years, we had collectively worked as business executives, entrepreneurs, and leadership consultants to chief executives and senior leaders of Fortune 500 companies, large privately held companies, and start-ups. We had each coached hundreds of leaders. The most successful of them all seemed to have something in common that went beyond insight, discipline, or interpersonal skill. We also spoke about noted public figures with masterful emotional intelligence skills who would sway like reeds in the wind when faced with morally loaded decisions. We hypothesized that there was something more basic than emotional intelligence skills—a kind of moral compass—that seemed to us to be at the heart of long-lasting business success. We decided to label this “something more” *moral intelligence*.

Moral intelligence is “the mental capacity to determine how universal human principles should be applied to our values, goals, and actions.” In the simplest terms, *moral intelligence* is the ability to differentiate right from wrong as defined by universal principles. Universal principles are those beliefs about human conduct that are common to all cultures around the world. Thus, we believe they apply to all people, regardless of gender, ethnicity, religious belief, or location on the globe.

Our shared notion that moral intelligence was key to effective leadership led us to wonder: How do leaders get to be moral—or not? Are people born that way? Does our human “hardwiring” predispose us to be concerned for others? What accounts for the wide differences in moral behavior among leaders? Have we learned anything new about human nature over the past few decades that could help us understand the impact of moral sensibilities on leadership behavior? What do the

1. These skills were highlighted in Goleman, D. *Working with emotional intelligence*. New York: Bantam Books (1998).

fields of philosophy, social biology, developmental psychology, cultural anthropology, and the neurosciences have to say about these questions?

Before progressing to further develop our hypothesis, we hired crackerjack researcher, Orlo Otteson, to help us review the academic literature on the moral dimensions of human nature and experience. Orlo first reviewed over 1,800 article abstracts referencing *moral leadership* from the fields of business, religion, philosophy, anthropology, sociology, and political science but found few in-depth moral leadership discussions. Most articles focused on a specific kind of leadership (business, political, religious), on a specific leadership problem, or on the general need for honest and upright leadership. He then surveyed nearly 400 books and articles on morality from the disciplines of philosophy, psychology, biology, and neuroscience, distilling their insights as they applied to leadership and organizations.

Meanwhile, we began to organize our observations of the many hundreds of leaders we had encountered in our work. As our conviction about the importance of moral intelligence grew, we conducted in-depth interviews with 31 CEOs and 47 other senior executives to learn the precise ways that they deployed their moral intelligence to achieve important personal and business goals. We also discussed our ideas with many talented leaders and colleagues whose penetrating feedback helped us deepen and refine our approach to moral leadership.²

Scientific research supported our initial notions about the importance of moral intelligence for individuals, organizations, and societies. But it was our interviews and observations of leaders that taught us exactly how the best of them used their moral intelligence to overcome obstacles, consistently outperform their rivals, and quickly pick up the pieces when they occasionally missed the mark.

Having analyzed their experiences, we concluded that strong moral skills are not only an essential element of successful leadership, but are

2. List of those we interviewed and with whom we discussed book concepts appears at the end of the Introduction.

also a business advantage. Indeed, the most successful leaders in any company are likely to be trustworthy individuals who have a strong set of moral beliefs and the ability to put them into action. Furthermore, even in a world that occasionally rewards bad behavior, the fastest way to build a successful business is to hire those people with the highest moral and ethical skills you can find.

Business leaders have gotten a bad rap in the first years of this decade. Yes, of course, there are the “bad eggs,” and they get a lot of press. But most business leaders are not like those in the newspapers. Consider, for example, a story we heard from Peter Georgescu, chairman emeritus of Young & Rubicam, who built a large advertising and marketing company and is widely known as an inspiring leader.

“Back in the 1980s, Warner Lambert approached us because they wanted to diversify their consumer products by selling sunglasses. They already had a celebrity spokesperson lined up, and they wanted us to advise them on how to roll out the new product. They told us we were competing with five other agencies to produce the best campaign. After we did the research, our group concluded that Warner Lambert wasn’t going to be able to get enough market share to make the new product line successful. We had significant debate about whether to present a campaign anyway, but finally our group went to Warner Lambert and said, “We know this isn’t what you want to hear, but we think the sunglasses line is a bad idea.” We explained our reasoning. They looked a little surprised, said, “Thank you,” and that was the end of the meeting—we had no idea what they thought.

Then a few weeks later, Warner Lambert called us and said, “You know, we agree with your analysis. No other agency was smart enough or honest enough to tell us, but you did. We have decided not to launch the line. Because of your honesty, though, we are going to give you some other business with us, and you won’t have to compete for it.”

Of all the executives we have queried about their beliefs and values, not one has hinted that they are driven to get to the top at all costs or that diddling with the books is a reasonable tactic for achieving results.

Likewise, none have stated that their work is only about increasing shareholder value. True, we might have been hearing politically correct answers, but with only a little bit of further questioning, we discovered all the leaders we interviewed have a *moral compass*—a set of deeply held beliefs and values—that drives their personal and professional lives. They revealed beliefs such as being honest no matter what; standing up for what is right; being responsible and accountable for their actions; caring about the welfare of those who work for them; and owning up to mistakes and failures. They told us vivid stories about how such beliefs played into the choices they made and the way they behaved. For some, it was the first time they had spoken out loud about their moral compass and its contribution to their business performance because many of those we interviewed think they shouldn't wear their beliefs on their sleeves and that discussions of moral values don't belong at work. We think work is exactly where moral values should be—and be discussed.

Why? All the leaders we interviewed recognize the importance of values to their business success. But the courageous ones who routinely communicate about their core beliefs and values—personal values as well as universal human principles they endorse—have discovered a great source of organizational energy. When a leader is explicit about what he or she believes and values, it becomes much easier for others to hold him or her accountable. Furthermore, it allows others who share those beliefs and values to say to themselves, “Hey, I agree with that. This is why *I* come to work, too! This is a place I can be myself and really be inspired to produce results.” When a leader is explicit about what he or she believes and values, creates a vision, strategy and goals aligned with those values, and then *behaves* in alignment with all of that—followers respond with deep trust of their leader.

Four years into our research and experimentation with moral intelligence tools, the new century began and with it the corporate accounting scandals that dominated its headlines. We realized it was time to go

public with our findings about the relationship between morality and business performance. While business practitioners were now defensively eager to discuss compliance-based ethics, no one we knew was focusing on the personal character, principles, and moral skills that must be baked into every leader and every organization that wants to ensure long-term sustainable results. The research that forms the basis of this book is largely observational and case study-based. Over the next several years, we plan to conduct quantitative research in partnership with academic and business institutions. We will be studying the relationship between leaders' moral intelligence and the long-term financial performance of their companies. But leaders who face today's urgent business challenges can't afford to wait for further research to confirm the importance of moral intelligence to their success. Countless leaders we have coached and trained in the last few years have told us that our methods for enhancing moral intelligence are making a difference in their own performance, helping them inspire higher performance in their workforces, and contributing to better financial results.

We offer this book as a roadmap for leaders to find and follow their moral compasses. Although we believe that doing the right thing is right for its own sake, we are convinced that leaders who follow their moral compasses will find that it is the right thing for their businesses as well. This book is *not* about telling you what is right or wrong. It's not about helping you try to become a moral paragon. We are all imperfect, none more so than your authors. Though we all want to be our best, most ideal selves, we face daily obstacles and temptations that threaten our performance as leaders and our integrity as human beings. In this book, we hope you will find the tools to become the best leader you can be. You—and your organization—deserve nothing less.

Leaders Interviewed

We are deeply indebted to the large group of leaders who contributed to our thinking and research. Our interview subjects were especially generous with their time and candid in their self-assessments.

Douglas Baker	CEO, Ecolab Inc.
Dan Brettler	CEO and Chairman, Car Toys, Inc.
Kenneth Chenault	CEO and Chairman, American Express Company
Paul Clayton	CEO Jamba Juice
Michael Connolly	Former CEO, Heartland Juice; former CEO, Great Clips Regional Companies, a Great Clips Franchisee
Stan Dardis	CEO and President, Bremer Financial Corporation
Lynn Fantom	CEO, ID Media
Paul Fribourg	CEO and Chairman, Conti-Group Companies
Peter Georgescu	Chairman Emeritus, Young & Rubicam
Harvey Golub	Chairman of the Board of Directors, Campbell's Soup Company and Chairman and CEO (retired), American Express Company
Brian Hall	CEO, Thomson Legal & Regulatory Group
Don Hall, Jr.	CEO and Vice Chairman, Hallmark Cards
Dick Harrington	CEO, The Thomson Corporation
David Hubers	CEO (retired), American Express Financial Advisors
Ken Kaess	CEO, DDB Worldwide
David Kenny	CEO and Chairman, Digitas, Inc.
Mike McGavick	CEO and Chairman, Safeco Corporation
Rowland Moriarty, Ph.D.	CEO and Chairman, Cubex Corporation; Founding Director, Staples; Founding Director, PetsMart
Mark Oja	CEO ACTIVEAID
Larry Pinnt	Chairman, Cascade Natural Gas
Michael Phillips	Chairman, The Russell Investment Group

Keith Reinhard	Chairman, DDB Worldwide
Spenser Segal	CEO, ActiFi
Dale Sperling	CEO, Unico Real Estate Company
Jay Sleiter	CEO and Chairman, BWBR Architects
Mayo Shattuck	CEO and Chairman, Constellation Energy
Lynn Sontag	CEO, MENTTIUM Corporation
Craig Ueland	CEO and President, The Russell Investment Group
Charlie Zelle	CEO and Chairman, Jefferson Bus Lines
Ed Zore	CEO and President, Northwestern Mutual
Jim Berrien	President, <i>Forbes</i> Magazine
Brenda Blake	Senior Vice President, Global Leadership Marketing, American Express
Walt Bradley	Financial Advisor, Thrivent Financial for Lutherans
Sam Bronfman	Former Senior Vice President, Seagrams, Inc.
George Brushaber	President, Bethel University
Mike Campbell	President, Safeco Financial Institution Solutions
Cindy Carlson	Former President, Capital Professional Advisors
Kevin Carter	Vice President, Diversity Initiatives, Safeco Corporation
Rick Clevert	Vice President of Human Resources, The Carlson Companies
Eric Drummond-Hay	Vice President, Chief Actuary, SBI, Safeco Corporation
Dave Edwards	Senior Vice President, International Information Management, American Express
Patrick Grace	Former Senior Vice President, The Grace Corporation
Jim Greenawalt	Senior Vice President Executive Development, Thomson Legal & Regulatory Group
Kim Garland	Vice President, National SPI Auto, Safeco Corporation

Jim Swegle	Vice President, National SPI Property, Safeco Corporation
Maurice Hebert	Senior Vice President and Controller, Safeco Corporation
Brian Heath	Senior Vice President and General Manager, American Express Financial Advisors
Lori Kaiser	Former Senior Vice President, Cray Computer Co.
M'Lynn Hoefler	Senior Vice President, MENTTIUM Corporation.
Mike Hughes	Senior Vice President, SBI Regular , Safeco Corporation
Gary Kessler	Senior Vice President of Human Resources Honda America
Diane Kozlak	Vice President, MENTTIUM Corporation
Ken Krei	President, Wealth Management Group, M&I Bank
Jeanne Lind	Director of Automation (SBI), Safeco Corporation
Karen Lane	Former Governor's Staff, State of Washington
Mike LaRocco	Co-President, Product, Underwriting and Claims, Safeco Corporation
Dale Lauer	Executive Vice President, Claims, Large Commercial, SFIS and Surety Safeco Insurance
Harvey Leuning	Associate Pastor, Gloria Dei Lutheran Church, St. Paul, MN
Ann Levinson	Deputy Director, Seattle Monorail Authority
Don MacPherson	Co-President, Modern Survey
Christine Mead	Co-President, Service, Technology and Finance and Chief Financial Officer, Safeco Corporation
Pam Moret	EVP of Products and Marketing, Thrivent Financial for Lutherans
Eric Morgan	Former Senior Vice President, Lawson Software
Allie Mysliwy	EVP of Human Resources and Operations, Safeco Corporation
Gary O'Hagen	President of Coaches Division, IMG
Carla Paulson	Senior Vice President of Human Resources, Bremer Financial Group

Tom Perrine	Vice President, Cardinal Health
David Risher	Former Senior Vice President, Amazon.com
Pat Roraback	Vice President, M&I Bank
Jim Ruddy	EVP and General Counsel, Safeco Insurance
Joe Schlidt	Vice President, M&I Bank
John Schlifski	Senior Vice President, Northwestern Mutual
Tom Schinke	Managing Division Vice President, Thrivent Financial for Lutherans
Jim Thomsen	Senior Vice President of Distribution, Thrivent Financial for Lutherans
Kim Vappie	President and Chief Operating Officer, MENTTIUM Corporation
Mike Woodward	Senior Vice President, American Express Financial Advisors

Thought Partners

We greatly appreciate our many colleagues and mentors whose input has helped sharpen our thinking about the moral dimensions of leadership. They include

Rick Aberman, Ph.D.	Psychologist, emotional intelligence expert and coauthor of <i>Why Good Coaches Quit—and How You Can Stay in the Game</i>
Reuven Bar-On, Ph.D.	University of Texas Medical Branch, in the Department of Psychiatry and Behavioral Sciences, where he directs research in emotional and social intelligence
Richard Boyatzis, Ph.D.	Professor and Chair of the Department of Organizational Behavior at the Weatherhead School of Management at Case Western Reserve University, and co-author of <i>Primal Leadership: Realizing the Power of Emotional Intelligence</i>

- Kate Cannon President, Kate Cannon and Associates
- Robert Caplan, Ph.D. Director, Beach Cities Health District, an organization charged with promoting mental and physical wellness in three adjacent communities in Southern California
- Cary Cherniss, Ph.D. Director of the Rutgers University Organizational Psychology Program, professor of Applied Psychology and coauthor of *The Emotionally Intelligent Workplace*
- Stephen Covey, Ph.D. Author of *The 7 Habits of Highly Effective People* whose conversations with Doug in the early 1990s reinforced early versions of our alignment model
- Vanessa Druskat Associate Professor, University of New Hampshire, Whittemore School of Business and Economics
- Robert Emmerling, Ph.D. Consultant and researcher specializing in the application of emotional intelligence concepts in the workplace
- Jim Garrison President and co-founder (with Mikail Gorbachev) of the State of the World Forum and author of *America as Empire*
- Roy Geer, Ph.D. Psychologist, consultant, and co-author (with Doug Lennick) of *How to Get What You Want and Remain True to Yourself*
- Daniel Goleman, Ph.D. Co-director of the Consortium for Research on Emotional Intelligence in Organizations at Rutgers University, author of *Emotional Intelligence, Working with Emotional Intelligence*, and co-author of *Primal Leadership: Realizing the Power of Emotional Intelligence*
- Marilyn Gowing, Ph.D. Vice President for Public Sector Consulting and Services with the Washington office of AON Consulting
- Darryl Grigg, Ph.D. Psychologist
- Dorothy Hutcheson Head of School, Nightingale-Bamford School for Girls

- Jennifer Hugstad-Vaa, Ph.D. Professor, St. Mary's University Minnesota
- Ruth Jacobs Director of Research and Technology at McClelland Center for Research and Initiatives, The Hay Group
- Stuart Kantor, Ph.D. Co-founder and principal of Red Oak Consulting, an executive development firm
- Carol Keers Co-founder, Change Masters Inc
- Kathy Kram, Ph.D. Professor of Organizational Behavior at the Boston University School of Management
- Richard Leider Founding partner of The Inventure Group and author of *Repacking Your Bags, the Power of Purpose*, and *Life Skills*
- Jim Loehr, Ph.D. Performance psychologist and co-author of *The Power of Full Engagement: Managing Energy, Not Time, Is the Key to High Performance and Personal Renewal* and author of *Stress for Success*
- Fred Luskin, Ph.D. Senior Fellow at the Stanford Center on Conflict and Negotiation, co-founder of the Stanford University Forgiveness Project, and author of *Forgive for Good*
- Stephen Kelner, Jr. Global Knowledge Manager, Egon Zehnder International, Inc.
- David Kidd Partner, Egon Zehnder International, Inc.
- Matthew Mangino Consultant Director, Johnson & Johnson
- Jim Mitchell Executive Fellow, Leadership at the Center for Ethical Business Cultures in Minneapolis
- Tom Mungavan President and co-founder, Change Masters, Inc.
- John Nicolay, MBA MBA instructor, University of Minnesota
- Hy Pomerance, Ph.D. Co-founder and principal of Red Oak Consulting, an executive development firm
- Richard Price, Ph.D. Professor of Psychology and Business Administration at the University of Michigan, and Senior Research Scientist at the Institute for Social Research

- Fabio Sala, Ph.D. Associate Director, Learning and Development, Millennium Pharmaceuticals, Inc.
- Tony Schwartz Co-author of *The Art of the Deal* and *The Power of Full Engagement: Managing Energy, Not Time, Is the Key to High Performance and Personal Renewal* and author of *What Really Matters: Searching for Wisdom in America*
- Hersh Shefrin, Ph.D. Professor of Finance at the Leavey School of Business, Santa Clara University, and author of *Beyond Greed and Fear*
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- Therèse Jacobs Stewart, Ph.D. Master Psychologist
- Jeff Stiefler CEO, Digital Insights
- Redford Williams, Ph.D. Professor of Psychiatry and Behavioral Sciences, Professor of Medicine, and Director of the Behavioral Medicine Research Center at Duke University Medical Center
- Larry Wilson Founder of Wilson Learning and Pecos River Learning Center, author of *The One Minute Sales Person* and *Changing the Game: The New Way to Sell* and co-author of *Stop Selling, Start Partnering*

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1

GOOD BUSINESS

Gary O'Hagen is a division president of International Management Group, the world's largest sports marketing and talent representation agency. Gary is an intense, competitive, and imposing man who looks like the football player he once was. As a young man, he was drafted and then cut by the San Francisco 49ers, then picked up and cut by the New York Jets. Gary was devastated but determined to find another route to high achievement. He got a job as a financial trader with Solomon Brothers and attended law-school classes every weekday night. When his grandfather died, Gary was expected to attend the wake, the funeral, and a host of other family gatherings. Gary was anxious about falling behind at work and school, so he thought he could attend the funeral, make a quick appearance at the after-funeral lunch, after which he'd head back to work. But when he got to the restaurant,

the significance of his family's loss finally registered, and Gary realized that his priorities were out of whack. He called his boss and told him he wasn't coming in to work. His boss was concerned and upset, but Gary stayed. He knew that if he didn't have the compassion to help his family in that moment, he would never amount to much either personally or professionally.

Gary O'Hagen is only one of the many leaders we know with high moral intelligence, those who do their best to follow their moral compass. They do it because they believe it's the right thing to do. A funny thing happens when leaders consistently act in alignment with their principles and values: They typically produce consistently high performance almost any way you can measure it—gross sales, profits, talent retention, company reputation, and customer satisfaction. We think this is no accident. The successful leaders we know always attribute their accomplishments to a combination of their business savvy *and* their adherence to a moral code. Doug Baker, CEO of Ecolab, a \$4 billion dollar cleaning-products manufacturer, tells us that “living by my personal moral code is one of the key reasons I have this job.” Ed Zore, CEO of Northwestern Mutual, says, “Being moral—which to me means being fair, predictable, up-front and not devious—all of this has been very important in my career. Everybody knows what I stand for. People know that we will never, ever be deceitful. We won't leave a nickel on the table, but in the end our word is our bond, and this is a real advantage in business because people want to deal with us and want to deal with me.” Gary Kessler, a vice president with the Honda Motor Company, credits his principles and values for his career success. “I was VP of a business unit at Bausch and Lomb when I was 36 and at Honda when I was 45. I think I had the good fortune of working with people who recognized that I had sincerity and a conviction to do the right thing along the way.”

A Special Kind of Intelligence. Each of these leaders and others you will meet throughout this book are morally gifted. They are high in moral intelligence. Most of us are familiar with other kinds of intelligence, such as our cognitive intelligence (IQ) and our technical intelligence. IQ and technical intelligence are undeniably important to a leader's success. Leaders need to be good learners (IQ) who have expertise about their particular business (technical) areas. We call cognitive and technical intelligence *threshold competencies* because they are the price of admission to the leadership ranks. They are necessary but not sufficient for exceptional performance. They don't help you stand out from the competitive crowd because your rivals' leadership teams have as much basic intelligence and business savvy as you do.

Intelligence that Makes the Difference. To outpace your competition, you need to cultivate different kinds of intelligence we call *differentiating competencies*. *Moral intelligence* and *emotional intelligence* are two types of intelligence that are difficult for your competition to copy. Many corporate leaders ignore these differentiating competencies because they are soft skills that are difficult to measure. In recent years, however, an increasing number of organizations have realized the performance benefits of emotional intelligence. Daniel Goleman deserves enormous credit for bringing emotional intelligence out of the academic closet and into the tough-minded halls of commerce. His books on emotional intelligence provide a rich and compelling case for the importance of emotional skills to corporate leaders.¹

Although emotional intelligence is widely recognized as a business tool, its definition is still evolving. In 1990, Professors Peter Salovey of Yale University and John Mayer of the University of New Hampshire first coined the term. Their original definition of emotional intelligence

1. For example, Daniel Goleman. *Emotional Intelligence: Why It Can Matter More Than IQ*. New York: Bantam, 1995, and *Working with Emotional Intelligence*. New York: Bantam, 1998.

was “the ability to monitor one’s own and others’ feelings, to discriminate among them, and to use this information to guide one’s thinking and action.” They identified the components of emotional intelligence:

- Appraising emotions in self and others
- Regulating emotions in self and others
- Using emotions adaptively

Salovey later expanded those into five domains, which Dan Goleman adapted in 1995 in *Emotional Intelligence: Why It Can Matter More Than IQ*:²

- Knowing one’s emotions (self-awareness)
- Managing emotions
- Motivating oneself
- Recognizing emotions in others
- Handling relationships

In 1997, Salovey and Mayer recharacterized emotional intelligence as “the ability to perceive, appraise, and express emotion accurately and adaptively; the ability to understand emotion and emotional knowledge; the ability to access and/or generate feelings when they facilitate thought; and the ability to regulate emotions in ways that assist thought.” The revised components became

- Perceiving and expressing emotion
- Using emotion in cognitive activities
- Understanding emotions
- Regulation of emotions

2. Ibid.

Other experts in the field of emotional intelligence offer slightly different twists, but the definitions are consistent with those of Salovey, Mayer, and Goleman.

Moral intelligence is new to the playing field. Just as emotional intelligence and cognitive intelligence are different from one another, moral intelligence is another distinct intelligence. Moral intelligence is our mental capacity to determine how universal human principles—like those embodied by the “golden rule”—should be applied to our personal values, goals, and actions. This book focuses on four principles that are vital for sustained personal and organizational success:

- Integrity
- Responsibility
- Compassion
- Forgiveness

Integrity is the hallmark of the morally intelligent person. When we act with integrity, we harmonize our behavior to conform to universal human principles. We do what we know is right; we act in line with our principles and beliefs. If we lack integrity, by definition, we lack moral intelligence.

Responsibility is another key attribute of the morally intelligent person. Only a person willing to take responsibility for her actions—and the consequences of those actions—will be able to ensure that her actions conform to universal human principles. Compassion is vital because caring about others not only communicates our respect for others, but creates a climate in which others will be compassionate toward us when we need it most. Forgiveness is a crucial principle, because without a tolerance for mistakes and the knowledge of our own imperfection, we are likely to be rigid, inflexible, and unable to engage with others in ways that promote our mutual good.

Compassion and forgiveness operate on two levels: first in how we relate to ourselves and second, in how we relate to others. Since we have yet to meet a person with *perfect* moral intelligence, putting principles into action requires that when we make inevitable mistakes, when our behavior fails to conform to universal human principles, we need to be able to treat ourselves with compassion and forgiveness. If we are not gentle and forgiving of ourselves, we will not have the energy to move forward to build our moral capacity. Similarly, to inspire others to enhance their moral intelligence, we need to treat others with compassion and forgiveness.

Research tells us that emotional intelligence contributes more to life success than intellectual or technical competence. Emotional intelligence can help you behave with great self-control and interpersonal savvy. But emotional intelligence alone won't keep you from doing the wrong thing. Moral incompetence surfaces in moments when personal or business goals conflict with core values. Just about everyone has worked with someone who had great interpersonal skills but dropped the ball on a moral issue—perhaps an employee who let a colleague take the blame for something that was undeserved or a manager who gave an inflated performance rating to the boss' nephew. But until now, no one has paid much attention to systematically developing moral intelligence—even though the best leaders know it's their secret weapon for lasting personal and organizational performance.

Some competencies that appear on lists of emotional competencies have a definite moral flavor, such as the ones listed here (from Daniel Goleman's *Working with Emotional Intelligence*):

- Have a guiding awareness of (personal) values and goals
- Voice views that are unpopular and go out on a limb for what is right
- Act ethically and are above reproach
- Build trust through their reliability and authenticity

- Admit their own mistakes and confront unethical actions in others
- Take tough principle stands even if they are unpopular

We believe it is more accurate to describe them as moral competencies. They are aspects of the four principles we describe and, in this book, we explore these attributes as well as the other competencies we see present in integrity, responsibility, compassion, and forgiveness. Perhaps it has been safer to think of these clearly moral competencies as emotional competencies because the culture of business in the last half century has discouraged all of us from talking about the “m” word. If there is a silver lining to the recent corporate scandals, it is that moral lessons are inescapable. The time has come to openly acknowledge the contribution of moral intelligence to effective leadership and sustainability.

Although both emotional intelligence and moral intelligence come into play when moral decisions are at stake, they are not the same. Emotional intelligence is values free. Moral intelligence is not. Emotional skills can be applied for good or evil. Moral skills, by definition, are directed toward doing good.

Emotional intelligence and moral intelligence, though distinct, are partners. Neither works in a truly effective way without the other. In *Primal Leadership: Realizing the Power of Emotional Intelligence*, Goleman and his co-authors, Richard Boyatzis and Annie McKee, tackle the boundary between emotional and moral intelligence when they discuss how good and bad leaders can use the same emotional competencies:

Given that adept leaders move followers to their emotional rhythm, we face the disturbing fact that, throughout history, demagogues and dictators have used this same ability for deplorable ends. The Hitlers and Pol Pots of the world have all rallied angry mobs around a moving—but destructive—message. And therein lies the crucial difference between resonance and demagoguery...

Demagoguery casts its spell via destructive emotions, a range that squelches hope and optimism as well as true innovation and creative imagination (as opposed to cruel cunning). By contrast, resonant leadership grounded in a shared set of constructive values (our emphasis) keeps emotions resounding in the positive register. It invites people to take a leap of faith through a word picture of what's possible, creating a collective aspiration.³

Without a moral anchor, leaders can be charismatic and influential in a profoundly destructive way. As *Primal Leadership* emphasizes, truly effective leadership is “grounded in a shared set of constructive values.”⁴ Without knowledge of those values—in other words, moral intelligence—the skills of emotional intelligence are ultimately ineffective in promoting high performance.

Moral intelligence is not just important to effective leadership—it is the “central intelligence” for all humans. Why? It’s because moral intelligence directs our other forms of intelligence to do something worthwhile. Moral intelligence gives our life purpose. Without moral intelligence, we would be able to do things and experience events, but they would lack meaning. Without moral intelligence, we wouldn’t know why we do what we do—or even what difference our existence makes in the great cosmic scheme of things.

A Renewable Asset. The more you develop your moral intelligence, the more positive changes you will notice, not only in your work but in your personal well-being. Staying true to your moral compass will not eliminate life’s inevitable conflicts. Will you have to compromise sometimes between your beliefs and the demands of your work environment?

3. Daniel Goleman, Richard Boyatzis, Annie McKee, *Primal Leadership: Realizing the Power of Emotional Intelligence*, Harvard Business School Press, 2002.

4. Ibid.

Yes! Will you make mistakes? Will you sometimes say the wrong thing out of jealousy or greed? Definitely! But staying the moral course will give you singular personal satisfaction and professional rewards.

Your “Moral Positioning System.” Think of moral intelligence as a “moral positioning system” for your life’s journey, analogous to the global positioning system used in some cars as a navigational tool. You can be a great driver, and your car can have a powerful engine and four-wheel drive, but when it’s dark and you’ve never been in this neck of the woods before, you have directions that were given you by someone who doesn’t know street names, and you cannot see the map you got from AAA, you are lost. Despite all your tools and resources, you have no idea if you are headed in the right direction. But if your car had a global positioning system, it would be virtually impossible for you to get lost. Like having a GPS for your car, your moral intelligence allows you to better harness all your resources, your emotional intelligence, your technical intelligence, and your cognitive intelligence, to achieve the goals that are most important to you—whether on the job or in the rest of your life. Unlike today’s GPSs, moral intelligence is not optional equipment. It is basic equipment for individuals who want to reach their best creative potential and business leaders who want to capture the best efforts of their workforce.

What Does Moral Intelligence Look Like? Most successful leaders are morally gifted, but very few of them are moral geniuses. They all make mistakes from time to time and, earlier in their careers, they typically made moral mistakes more often. But because of their high moral intelligence, they were quick studies. They held themselves accountable for their moral lapses, learned from them, and moved on. Consider Jay Coughlan’s story. Today, Coughlan is the CEO of Lawson Software, but no one would have predicted his rise to that top spot back in 1998 after he fell asleep while driving intoxicated, causing a devastating accident that left him seriously injured and his father dead. The accident was the

beginning of a remarkable personal transformation marked by a reawakening of his religious faith, a stronger relationship with his family and involvement in the community, and an intensive commitment to Lawson. Coughlan pleaded guilty to vehicular homicide and was sentenced to one month in jail, five months of house arrest, and 10 years of probation. But because of Coughlan's honesty and the support of the community, the judge reduced his offense to a misdemeanor after he had served over three months of his sentence. Meanwhile, during his absence from Lawson, the health care division that Coughlan had launched was flourishing. "That's when I learned I actually was successful as a leader," he told *The Wall Street Journal*, "when you can pull yourself out of the machine and it can still run."⁵ His financial results were impressive and likely were the most significant factor in his subsequent promotions. The accident would have been a career-ending event for most people in Coughlan's shoes, but his response to the accident was extraordinary. "Jay, to his credit, stood right up and took responsibility; there was no hesitation," says Richard Lawson, the company's chairman and former CEO. "To me that is what counts. It's not the mistakes you make, it's how you react to those mistakes."

Lynn Fantom, CEO of ID Media, the largest direct response media service company in the U.S., is another morally gifted leader. It is late in the afternoon one cool spring day when Lynn walks back to her corner office in a New York City skyscraper. The Empire State Building is visible out one window, the Met Life and Flat Iron building out the other. Lynn barely notices the spectacular view. She goes straight to her desk and opens an e-mail from a Human Resources manager at her parent company, Interpublic. HR, it seems, is worried about how overloaded she is. They wonder if it is the best use of her time to respond to the employee comments and questions she gets on the "Ask Lynn" column on the company's intranet. Her public relations folks are also concerned about her schedule. They've recommended that she stop

5. Reported in Marcelo Prince, "Manager Discovers Leadership in an Accident's Aftermath," *The Wall Street Journal*, April 5, 2002.

spending precious time posting her thoughts on media and marketing trends on the intranet. But Lynn thinks her personal responses to employees are an important part of the ID Media culture. She thinks that “Ask Lynn” gives her an opportunity to demonstrate that she cares about her workforce. She thinks that she has a responsibility to her workforce to share her business insights. To her, it’s time well spent. Lynn is certain that employees like knowing they can ask her about anything and that she will give them an honest response. They also like knowing that she understands market trends and shares her understanding with them. “In exchange,” says Lynn, “I really get their commitment to help us succeed.” Lynn is sticking to her principles. She won’t be giving up her intranet contributions anytime soon.

Moral Intelligence and Business Success. Though leaders may attribute their companies’ success to their commitment to moral principles, their evidence is based only on their personal experiences. So far, there has been no quantitative research that specifically studied the business impact of moral intelligence. But there are objective indications that moral intelligence is critical to the financial performance of your business. One measure of the influence of moral intelligence on business results comes from American Express Financial Advisors, an American Express company that implemented a highly effective emotional competence training program. American Express defined *emotional competence* as “the capacity to create alignment between goals, actions, and values.” The program emphasized development of self-leadership and interpersonal effectiveness and demonstrated how those emotional skills led to business and personal success. The bottom line impact of the program was impressive, with participants in a pilot group producing sales that were 18 percent higher than a control group that didn’t have the benefit of the training—no small change in a company that managed or owned assets in excess of \$232 billion at the time. At the heart of the program was a special subset of skills that helped people to discover their principles and values and then create goals and action

steps that flowed from those deeply held principles and values. American Express Financial Advisors' leaders came to realize that it was this overriding moral framework, that is, the emphasis on *principles* and *values*, that accounted for much of the success of the program. American Express had already found from internal studies that the most successful advisors were highly confident, resilient under adverse circumstances, and, most importantly, acted from a strong core of principles and values. To form trusting partnerships with clients, advisors needed to be genuinely trustworthy. To be seen as trustworthy, advisors had to act in accordance with worthwhile personal values. If advisors practiced the self-management and social skills they learned in the training, but failed to operate from moral principles and values, they would fall short of sustainable success.

While American Express' data demonstrates the importance of an individual advisor's moral intelligence to financial performance, other businesses have discovered that they produce the best results when their company overall is known for its moral intelligence. Market research tells us that consumers judge a company's reputation mainly on the basis of its perceived values. A company's reputation translates straight to the bottom line: Consumers prefer to make purchases from companies who are known for their ethical practices.⁶

The business case for moral intelligence gets another boost from a study done at DePaul University in Chicago. Researchers from the School of Accountancy and MIS compared the financial performance of 100 companies selected by *Business Ethics* magazine as "Best Corporate Citizens" with the performance of the rest of the S&P 500. Corporate citizenship rankings were based on quantitative measures of corporate service to seven stakeholder groups: stockholders, employees, customers, the community, the environment, overseas stakeholders, and women and minorities. The study found that overall financial performance of the 2001 Best Corporate Citizen companies was significantly

6. Cone/Roper Cause Related Trends Report, 1999.

better than the rest of the S&P 500. The average performance of the Best Citizens, as measured by the 2001 *Business Week* rankings of total financial performance, was more than 10 percentile points higher than the mean rankings of the rest of the S&P 500. According to *Strategic Finance* magazine, which reported the study, “It casts doubt on the persistent myth that good citizenship tends to lead to additional costs and thus negatively impacts a firm’s financial results.”⁷

Moral Intelligence and the War for Talent. Everyone agrees that talent is a key corporate asset, no matter what the state of the economy. A company’s best employees can walk out the door at any time. They are much more likely to take their expertise and potential elsewhere if they don’t like the ethical or moral tenor of their workplace.⁸ Sometimes, this manifests itself as a reaction to an organization that fails to embrace universal human principles; at other times, the talent walks simply because their immediate supervisor or boss is lacking in moral intelligence. Several years ago, a young man we know abruptly quit a job that he had been thrilled to get only a few months before. He loved the work and loved the product—selling sports hospitality packages of high-profile sports events to large corporations—but couldn’t tolerate the moral climate. Some years before beginning his job, his company had run afoul of a major sports association for using misleading and unethical tactics to get people to buy tickets for a major golfing competition and was now under a court order that prevented them from lying to get people to buy tickets. The company’s solution was to create two sales scripts for the golfing competitions—an “official” sales script for marketers to keep by the phone and show to the CEO if he stopped by. The actual sales script used by the marketers was the same kind of misleading pitch that had gotten the company into hot water in the first place. The final straw for this young man came when he was asked to start selling tickets for a major tennis event. There was a huge surplus of

7. *Strategic Finance*, Vol. 83, No. 7, p. 20, January 2002.

8. National Business Ethics Survey 2000, www.ethics.org/2000survey.html.

tickets for this event because the company's usual big-spending corporate clients were not buying, no doubt in the wake of a weak economy and the public furor over corporate accounting irregularities. The sales script he was told to use was essentially this: "WorldCom originally signed up for a block of tickets and had already made their first payment of 50%. They have now backed out, for obvious reasons. So you can get the full deal by paying only half of the original cost." In fact, the company never had a deal with WorldCom, but was fabricating a plausible story to avoid embarrassment and encourage sales.

It's not just your current employees who expect a morally intelligent workplace. First-time job seekers increasingly rate the ethical character of prospective employees as a consideration in their decisions about where to work.⁹ Patrick Gnazzo, vice president of business practices for the manufacturer, United Technologies Corp. in Hartford, Connecticut, reported in a *The Wall Street Journal* article that a growing number of their job candidates apply for positions with UTC based on the job seekers' research into the company's ethics program.¹⁰

Moral Stupidity. The business advantages of moral intelligence may be hard to quantify, but the business costs of moral ignorance are undeniable. We have all seen more than enough images of corporate executives being carted off in handcuffs. But by now, it's clear that the corporate accounting scandals of 2001–2002 were more than blips on the business radar screen. At the time of this writing midway through 2004...

- Mitsubishi Motors' former president and 10 other senior leaders are in jail on charges related to systematic suppression of widespread vehicle defects. Five of those were charged with negligence related to a fatal accident caused by a known defect in one of its automobile models.

9. Reported in Kris Maher, "Wanted: Ethical Employer: Job Hunters, Seeking to Avoid an Enron or an Andersen, Find It Isn't Always Easy," *The Wall Street Journal*, July 9, 2002.

10. Ibid.

- Former Adelphia Communications CEO, John Rigas, and his son Timothy were convicted of hiding more than \$2 billion in debt while embezzling cash for numerous extravagances.
- The Securities and Exchange Commission has charged Lucent Technologies with “fraudulently and improperly” recognizing more than \$1 billion in revenues and \$470 million in pre-tax income during fiscal 2000.
- After a two-year investigation, former Enron CEO Ken Lay has been indicted on several counts of fraud.
- Richard Scrushy, former chairman and CEO of health-care services provider, HealthSouth Corporation, faces trial in 2005 for \$2.5 billion in accounting frauds. More than a dozen HealthSouth executives have already pleaded guilty in the case.

Corporate moral dysfunction does more than hurt stock performance. Remember those consumers who like to purchase from ethical companies? They also hesitate to buy from unethical ones, and they don't hesitate to make their displeasure known. More than 70 percent of American consumers have, at some point, punished companies they view as unethical either by avoiding a company's products or speaking negatively about the company to others.¹¹ Mitsubishi is feeling the effects of consumer punishment: It expects its Japanese sales to drop 40 percent in fiscal year 2005 in the wake of its recent scandal.

The evidence is clear—moral intelligence plays a big part in corporate success. Without it, your organization risks devastating financial failure. The implications for your leadership effectiveness? If you pay attention to your own moral intelligence and encourage development of moral intelligence throughout your organization, you inspire the best efforts of everyone—and your performance will outpace your rivals'. It is possible to get ahead without moral intelligence—everyone knows of

11. Millennium Poll on Corporate Social Responsibility, *Enviroics International Ltd.*, May 1999.

powerful executives who have done well despite notable moral lapses. But they could do even better if they tapped into their moral smarts. Without moral intelligence, long-term business success is ultimately not sustainable. *Fortune* magazine rated Enron one of its “globally most admired” companies the year before its infamous collapse, and Arthur Andersen, arguably once the gold standard in accounting firms, is defunct.

Of course, moral intelligence isn’t the only determinant of sustainable business performance. You also need solid business skills, and you need a product or service that people want to buy. What’s more, moral intelligence won’t immunize your company from the financial ups and downs of doing business in a volatile economy. But you need it to *stay* in business over the long haul.

Take your leadership to the next level—go beyond the usual formulas for leadership success and become the kind of leader who inspires the very best efforts of everyone who works with you. But how do you begin? Exactly how does moral intelligence produce better business performance? What are the specific moral skills you need to inspire the best efforts of your workforce? How can your organization—whether large or small—use moral intelligence to create high-performing work environments? You find answers to these questions in the pages that follow.

INDEX

A

Aberman, Rick, xli
ActiFi, 191, 194
actions, behavior frame, 61
ACTIVEAID, Inc., 198, 202, 204
Adelphia Communications, 17
AEFA, 106
alignment, 63
 behavior frame, 61
 emotional competence, 66-67
 experiential triangle, 74-75
 goals, 59
 misalignment, 68-73
 moral competence, 65
 moral intelligence, 64-65
 preventing misalignment, 76
 scores, MCI (Moral Competency Inventory), 238, 242
 staying aligned, 67-68
Alignment Model, 68
Alignment Worksheet, MCI (Moral Competency Inventory), 245-246
Amazon.com, 195
American Atheists, Inc., 34
American Express Financial Advisors
 Blake, Brenda, 157
 “Chairman’s Award,” 182
 Chenault, Ken, 142-143
 emotional competence, 13
 Golub, Harvey, 145, 169

Heath, Brian, 57
 importance of balanced life, 126
 retention value of servant leadership, 102
 Woodward, Mike, 106
American Humanist Association, 34
Anderson, Brad, 181
approachability, emotional competencies, 136-137
The Art of the Deal and The Power of Full Engagement, xliiv
Arthur Andersen, 18
assessments, MCI (Moral Competency Inventory), 227-233
 interpretation, 241-246
 scoring, 235, 238

B

bad habits, breaking, 223
Badaracco, Joseph Jr., *Leading Quietly*, 19
Baker, Doug, 4, 125
balanced lives, emotional nutrient, 124-126
Bar-On, Reuven, xli
Bausch and Lomb, 4
behaviors, 61
 experiential triangle, 74-75
 frame, 59-61
 “living in alignment,” 39
beliefs, 49-51
 identifying, 51-52
 integrity consistency, 80-82

Bell, David, 67
 Benson, Herbert, *The Relaxation Response*, 126
 Best Buy, 181
 bin Laden, Osama, 45
The Biology and Psychology of Moral Agency, 25
 Blackwell, Lawana, 105
 Blake, Brenda, 157
 Blanchard, Ken, 99
 Bower, Marvin, 161
 Boyatzis, Richard, xli
 moral skill strengthening, 215-216
 Primal Leadership: Realizing the Power of Emotional Intelligence, 9, 19, 179, 215
 Bradley, Walt, 80
 brain
 fMRI image, 29-30
 moral development, 26-29
 Bronfman, Sam, 144
 Brown, Donald E., 20, 33
 Burger King North America
 employee performance truth, 84
 moral responsibility, 170
 positive messages, 181
 Burke, James, 170
 businesses
 community responsibilities, 208-212
 environmental protection, 209-210
 giving back to community, 210-211
 global moral leadership, 212-214
 moral intelligence success, 3-4
 costs of ignorance, 16-17
 differentiating competencies, 5-10
 influences, 13-15
 learning from mistakes, 11-13
 maintaining talented employees, 15-16
 “moral positioning system,” 11
 professional rewards, 10
 standing out among competition, 5
 morally intelligent. *See* morally intelligent organizations
 startups, 185
 five moral maxims, 197-204
 impact of moral skills, 196-197
 KRW International, 187-190
 Minneapolis Circulation, 186-187
 moral values, 190-196
 BWBR Architects, 108, 194

C

Campbell, David, *If You Don't Know Where You're Going, You'll Probably End Up Somewhere Else*, 56
 Camus, Albert, 122
 Capital Professional Advisors (CPA), 83, 91
 Caplan, Robert, xlii

Cardinal Health, 149
 Carlson, Cindy, 83, 91
 Carlson Companies, 98
Challenger, 88
Changing the Game: The New Way to Sell, xliv
 Charles Rives Associates, 200
 Chenault, Ken, 142-143
 Cherniss, Cary., xlii
 childhood, developing moral responsibility, 23-25
 Churchhill, Winston, 50, 122
 Clayton, Paul
 employee performance truth, 84
 integrity, 163
 moral responsibility, 170
 positive messages, 181
 small business integrity, 192
 Clevette, Rick, 98
 cognitive behaviors, 60
 cognitive intelligence, 5
 Collins, Jim, *Good to Great*, 19, 178
 communications, leaders belief in employee, 151-152
 communities
 business responsibilities, 208-209
 environmental protection, 209-210
 future responsibilities, 211-212
 giving back, 210-211
 global moral leadership, 212-214
 compasses. *See* moral compasses
 compassion, 106-109
 misplaced, 129-132
 morally intelligent organizations, 173-175
 small organizations, 194
 universal principles, 42
 competencies. *See also* MCI
 alignment, 65
 moral development plan, 221
 confidences, integrity, 90-91
 conflicts
 managing with empathy, 129
 values, 48
 Connolly, Michael, 131
 core values, identifying, 45-46, 48
Corps Business: The 30 Management Principles of the U. S. Marines, 176
 Coughlan, Jay, 11
 counseling, moral development, 226
 Covey, Stephen, xlii, 21
 CPA (Capital Professional Advisors), 83, 91
 Cray, Inc., 66, 122
 Curie, Marie, 50

D

Dalai Lama, 105
 Danzon, Patricia, 171
 Darwin, Charles, 31
 Dautheribes, Therese M., 34

DDB Worldwide, 116
 DePaul University, 14
 destructive emotions, 68, 72-73
 development, moral. *See* moral development
The Diary of Anne Frank, 85
 differentiating competencies, 5-10
 disconnectors, 222
 disrespect, 132-133
 Distribution with Thrivent Financial for
 Lutherans, 96
The Dowry of Miss Lydia Clark, 105
*Driven: How Human Nature Shapes our
 Choices*, 32, 55
 Dylan, Bob, 93

E

Ecolab, 4, 125
 Edwards, Dave, 157
 80/20 rule, moral skill development, 219-220
 Eisenberg, Daniel, 171
*The Emergence of Morality in Young
 Children*, 24
 Emmerling, Robert., xlii
 emotional competencies, 115-117
 alignment, 66-67
 American Express Financial Advisors, 13
 differentiating competencies, 5-10
 empathy, 128-129
 getting along with others, 135-138
 interpersonal effectiveness, 127-128
 misplaced compassion, 129-132
 nurturing emotional health, 123-127
 personal effectiveness, 121
 positive self-talk, 121-122
 respecting others, 132-135
 self-awareness, 117-119
 self-control, 123
 understanding thoughts, 119-120
*Emotional Intelligence: Why It Can Matter
 More Than IQ*, xlii, 5-6
The Emotionally Intelligent Workplace, xlii
 emotions
 behavior frame, 60
 destructive, 72-73
 experiential triangle, 74-75
 empathy
 emotional competencies, 128-129
 neonatal development, 21-22
 employees
 communicating belief in employees,
 151-152
 disclosure of moral compass, 152-153
 influence of company moral intelligence,
 15-16
 leader development, 150-151
 leader dispensing feedback, 153-154
 mutual accountability, 154-155
 performance truth, 84-85
 recruiting for values, 178-179
 resonant leaders, 179-180
 retention value of servant leadership, 102-
 103
 value differences, 155-156
 Enron, 17, 94
 entrepreneurs, 185
 KRW International, 187-190
 Minneapolis Circulation, 186-187
 environments, business protections, 209-210
 excuses, personal choice responsibility, 95, 97
 executive coaches, moral development, 226
 exercises, nurturing emotional competencies,
 126-127
 experiential triangles
 alignment, 74-75
 emotional self-awareness, 117-119

F

failures, admitting responsibility, 97-100
 Fantom, Lynn
 alignment, 67
 compassion, 108
 learning from mistakes, 12
 Farrar, Jay, 209
 Fastow, Andrew, 94
 feelings, self-awareness, 117-119
 Feuerstein, Aaron, 173
 Firestone, 171
 flexibility, emotional competencies, 137
 fMRIs (functional magnetic resonance
 imaging), 29-30
 Ford, Henry, 213
 forgiveness
 blaming self, 109-111
 letting go of others' mistakes, 112-113
 morally intelligent organizations, 176, 178
 small organizations, 194-196
 universal principles, 42
 Franklin, Benjamin, 50
 Freedman, David, *Corps Business: The 30
 Management Principles of the U. S.
 Marines*, 176
 functional magnetic resonance imaging
 (fMRIs), 29-30
 fundamental beliefs, 20-21
 brain moral anatomy, 26-29
 developing responsibility, 23-25
 fMRI image of brain, 29-30
 human drives for survival, 31-32
 influence of childhood nurturing, 22-23
 moral software, 33-35
 natural selection theory, 30-31
 neonatal empathy, 21-22
 neurological growth, 25-26
 futures, responsibility to community, 211-212

G

- Gage, Phineas, 26
 Garramone, Kelly, 187-190
 Garrison, Jim, 211
 GE, 166
 Geer, Roy, xlii, 219-220
 Georgescu, Peter, xxxv, 177
 Gide, Andre, 50
 global businesses
 moral leadership, 212-214
 values, 183
 Gnazzo, Patrick, 16
 goals, 53-56
 effective leaders, 57
 identifying own, 58
 "living in alignment," 39
 moral development plan, 221
 putting in writing, 58-59
 Goleman, Daniel, xlii
 differentiating competencies, 5
 *Emotional Intelligence: Why It Can
 Matter More Than IQ*, 5-6
 *Primal Leadership: Realizing the
 Power of Emotional Intelligence*,
 9, 19, 179
 Working with Emotional Intelligence, 8
 Golub, Harvey, 145, 167-168
Good to Great, 19, 178
 Gorbachev, Mikhail, 211
 Gowing, Marilyn, xlii
 Grigg, Darryl, xlii

H

- Hall, Don Jr., xxxviii, 88
 Hallmark Cards, 88
 Harrington, Dick, 141-142
 HealthSouth Corporation, 17
 Heartland, 131
 Heath, Brian
 compassion, 106
 forgiving self, 110
 goal importance, 57
 Honda Motor Company, 4, 88
 hostilities, truth, 86
 Hughes, Mike, 91, 120
 Hugstad-Vaa, Jennifer, xlii
Human Universals, 20, 34

I

- IBM, 112
 ID Media, 12, 67, 108
 ideal self, moral development plan, 221
 IDS, 124, 167
*If You Don't Know Where You're Going,
 You'll Probably End Up Somewhere
 Else*, 56
 IMG, 106

- Immelt, Jeffrey, 166
 integrity
 consistency, 80
 honoring confidences, 90-91
 inconsistency, 80-82
 keeping promises, 89-90
 morally intelligent organizations, 163-166
 principled stands, 87-88
 small organizations, 191-192
 truth. *See* truth
 universal principles, 42
 International Management Group, 3
 interpersonal effectiveness, emotions, 127-128
 Interpublic, 68
 inventories, MCI (Moral Competency
 Inventory), 227-233
 interpretation, 241-246
 scoring, 235, 238

J-K

- Jamba Juice
 Clayton, Paul
 employee performance truth, 84
 integrity, 163
 moral responsibility, 170
 small business integrity, 192
 MacPherson, Don, 198
 Jefferson Bus Lines, 65, 107
 Johnson & Johnson, 170
 Kagan, Jerome, *The Emergence of Morality
 in Young Children*, 24
 Kaiser, Lori
 emotional competence, 66
 positive self-talk, 122
 values, 43
 Kant, Immanuel, 85
 Kantor, Stuart, xliii
 Kelner, Stephen Jr., xliiii
 Kernes, Jerry L., 20, 34
 Kessler, Gary, 4, 88
 King, Martin Luther Jr., 51
 Kinnier, Richard T., 20, 34
 Kline, George, xxxi
 Kraft Foods, 167
 Kram, Kathy, xliiii
 KRW International, 187-190, 196, 203

L

- Lamb, Sharon, *The Emergence of Morality in
 Young Children*, 24
 Lane, Karen, 135
 Langer, Ray, 176
 Lauer, Dale, 38
 Lawrence, Paul, 32, 55
 Lawson Software, 11
 Lawson, Richard, 12
 Lay, Ken, 17, 72, 94

leaders

- author interviews, xxxviii
 - communicating belief in employees, 151-152
 - disclosure of moral compass, 152-153
 - dispensing feedback, 153-154
 - employee development, 150-151
 - forgiveness, 112-113
 - importance of goals, 57
 - inspiring followers, 147-148
 - mutual accountability, 154-155
 - power, 145-147
 - resonant, 179-180
 - retention value of serving others, 102-103
 - truth, 82-84
 - value differences with employees, 155-156
 - view of followers, 148-149
 - visibility, 144-145
- Leadership Alignment Task Force, 165
- Leading Quietly*, 19
- Lincoln, Abraham, 50
- listening, misplace compassion, 130-131
- “living in alignment,” 37-39. *See also* moral compasses
- Loehr, Jim, xliii
- London Business School, 152
- Lucent Technologies, 17
- Luskin, Fred, xliiii

M

- MacPherson, Don, 42
- admitting mistakes, 98
 - business to help others, 199
 - emotion self-awareness, 118
 - forgiving self, 109
- Maitland, Alison, 210
- Malden Mills, 173
- Manning, Mike, 95
- Mayer, John, 5
- McGavick, Mike, 174, 177
- MCI (Moral Competency Inventory), 227-233
- interpretation, 241
 - alignment score, 242
 - competency prioritizing, 246
 - highest and lowest scores, 243
 - importance rating, 245-246
 - item scores, 243-244
 - reality test, 244-245
 - scores, 217-218
 - moral strengths and weaknesses, 216
 - scoring, 235, 238
 - self-development tool, 217
 - self-rating errors, 217
- McKee, Annie, *Primal Leadership: Realizing the Power of Emotional Intelligence*, 9, 19, 179, 215
- McKinsey, 161, 168
- Mead, Christine, 164
- measurement company, 42
- mental checks, self-awareness breaks, 120
- MENTTIUM Corporation, 43
- Merck & Company, 171
- Microsoft, 87
- Minneapolis Circulation, 186-187
- Minneapolis* magazine, 186-187
- Minneapolis St. Paul* magazine, 186
- Minow, Newton, 93
- misalignment, 68
- destructive emotions, 72-73
 - experiential triangle, 74-75
 - moral virus
 - diagnosing, 69-70
 - disabling, 71-72
 - managing, 70-71
 - prevention, 76
- mistakes
- admitting responsibility, 97-100
 - forgiving others, 112-113
 - self-forgiveness, 109-111
- Mitsubishi Motors, 17
- Modern Survey Company
- admitting mistakes, 98
 - emotion self-awareness, 118
 - forgiving self, 109
- moral compasses, xxxvi, 40
- alignment, 63
 - emotional competence, 66-67
 - experiential triangle, 74-75
 - misalignment, 68-73
 - moral competence, 65
 - moral intelligence, 64-65
 - preventing misalignment, 76
 - staying aligned, 67-68
 - behavior, 59-61
 - beliefs, 49-52
 - disclosure to employee, 152-153
 - goals, 53-56
 - effective leaders, 57
 - identifying own, 58
 - putting in writing, 58-59
 - “living in alignment,” 39
 - universal principles, 41-43
 - values, 43-48
- moral competencies
- alignment, 65
 - moral development plan, 221
- Moral Competency Inventory. *See* MCI
- moral development
- brain moral development, 26-29
 - childhood nurturing, 22-23
 - fMRI image of brain, 29-30
 - fundamental beliefs, 20-21
 - human drives for survival, 31-32
 - moral software, 33-35
 - natural selection theory, 30-31
 - neonatal empathy, 21-22
 - neurological growth, 25-26

plan, 220-223
 prioritizing efforts, 218-219
 responsibility development, 23-25
 moral intelligence, xxxiii-xxxvii, 3-4
 alignment, 64-65
 community responsibilities, 208-209
 costs of ignorance, 16-17
 differentiating competencies, 5-10
 environmental protection, 209-210
 future responsibilities, 211-212
 giving back to community, 210-211
 global moral leadership, 212-214
 influence on business success, 13-15
 learning from mistakes, 11-13
 maintaining talented employees, 15-16
 “moral positioning system,” 11
 professional rewards, 10
 standing out among competition, 5
 moral leaders, xxxiv
 communicating belief in employees, 151-152
 disclosure of moral compass, 152-153
 dispensing feedback, 153-154
 employee development, 150-151
 inspiring followers, 147-148
 mutual accountability, 154-155
 power, 145-147
 value differences with employees, 155-156
 view of followers, 148-149
 visibility, 144-145
 “moral positioning system,” moral intelligence, 11
 moral skills, strengthening, 215-216
 bad habits, 223
 book and media resources, 225
 counseling, 226
 80/20 rule, 219-220
 executive coaches, 226
 MCI (Moral Competency Inventory), 216-218
 moral development plan, 220-223
 positive change reward, 223-224
 positive feedback, 219
 prioritizing development efforts, 218-219
 recognizing need for change, 224-225
 surrounding with positive people, 224
 workshops, 226
 moral software, 22, 33-35
 moral viruses, 68
 diagnosing, 69-70
 disabling, 71-72
 managing, 70-71
 morally intelligent organizations, 159-160
 compassion, 173-175
 forgiveness, 176-178
 integrity, 163-166
 policies, 161-163

principles, 163
 responsibility, 166-173
 reward systems, 180-182
 values, 157-159
 employee recruiting, 178-179
 global organization, 183
 resonant leaders, 179-180
 viewing, 160-161
 Moret, Pam, 129-130
 Moriarty, Rowland, xxxviii, 199
 Mysliwy, Allie, 164, 174

N-O

natural selection, moral development, 30-31
 neurology
 brain development, 26-29
 fMRI image of brain, 29-30
 moral development, 25-26
The New York Times, 203
 Nicholson, Nigel, 152
 Nicolay, John, xliii
 Nietzsche, Friedrich, 51
 Nohria, Nitin, 32, 55
 Northwestern Mutual, 4, 42, 120, 128
 O'Hagen, Gary, 3
 compassion, 106
 forgiving self, 111
 serving others, 101
 Oja, Mark
 business to help others, 198
 core values, 202
 employees sharing values, 202
 putting people first, 204
 “One Minute Manager,” 99
The One Minute Sales Person, xlv
 organizations. *See* businesses
 Otteson, Orlo, xxxiv

P

partners, selection, 199-201
 performances
 deficits, 155
 truth improvements, 87
 Perrine, Tom, 149
 personal choices, responsibility, 95-97
 personal effectiveness, emotions, 121
 Peterson, Erik, 209
 Phillip Morris, 166
 policies, morally intelligent organizations, 161-163
 Pomerance, Hy, xliiii
 positive feedback, strengthening moral skills, 219
 power, 49, 145-147
The Power of Full Engagement, xliiii

- Prahalad, C.K., 213
 Price, Richard, xliii
Primal Leadership: Realizing the Power of Emotional Intelligence, 9, 19, 179, 215
 primary beliefs, 20-21
 principles
 fundamental beliefs, 20-21
 integrity consistency, 80-82
 moral intelligence, 14
 morally intelligent organizations, 163
 universal, xxxiii, 41-43
 promises, integrity, 89-90
- Q-R**
- reality tests, MCI (Moral Competency Inventory), 244-245
 Reinhard, Keith, 116
The Relaxation Response, 126
 reprogramming, 223
 resonant leaders, 179-180
 resources, moral development, 225-226
 respecting others, 132-135
 responsibilities, 94
 admitting mistake, 97-100
 childhood development, 23-25
 morally intelligent organizations, 166-173
 personal choices, 95-97
 serving others, 100-109
 small organizations, 192-193
 universal principles, 42
 rewards
 morally intelligent organizations, 180-182
 positive changes, 223-224
 Reynolds, Kevin, 80
 Rice, Norm, 135
 Rigas, John, 17
 Rigas, Timothy, 17
 Risher, David, 87, 195
- S**
- Sadat, Anwar el, 51
 Safeco
 Hughes, Mike, 91, 120
 Lauer, Dale, 38
 McGavick, Mike, 164, 174, 176
 Sala, Fabio, xliiii
 Salovey, Peter, 5
 Schweitzer, Albert, 53
 scores, MCI (Moral Competency Inventory), 235, 238
 Scrushy, Richard, 17
 Seagram Company, 144
 Securities and Exchange Commission, 17
 Segal, Spenser
 forgiveness, 194
 partners, 201
 small business integrity, 191
 self-awareness
 emotional competencies, 117-119
 truth, 86-87
 understanding thoughts, 119-120
 self-control, 123
 self-talk
 positive, 121-122
 understanding thoughts, 119-120
 Seligman, Martin, 34
 serving others
 compassion, 106-109
 responsibilities, 100-103
The Seven Habits of Highly Effective People, xlii, 21
 Shefrin, Hersh, xliv
 Sills, Beverly, 50
 skills, strengthening, 215-216
 80/20 rule, 219-220
 bad habits, 223
 book and media resources, 225
 counseling, 226
 executive coaches, 226
 MCI (Moral Competency Inventory), 216-218
 moral development plan, 220-223
 positive change reward, 223-224
 positive feedback, 219
 prioritizing development efforts, 218-219
 recognizing need for change, 224-225
 surrounding with positive people, 224
 workshops, 226
 Skoglund, Judy, 124
 Sleiter, Jay, 108
 small organizations, moral values, 190-191
 compassion, 194
 five moral maxims, 197-204
 forgiveness, 194-196
 impact, 196-197
 integrity, 191-192
 responsibility, 192-193
 Smith, Janet, 200
 social programs, giving back to community, 210-211
 Solomon Brothers, 111
 Sontag, Lynn, 43
 Spencer, Lyle, xliv
 State of the World Forum, 211
 Stewart, Martha, 72, 99
 Stewart, Therèse, xliv
 strengths
 80/20 rule, 219-220
 moral development, 218-219
 subordinates, performance truth, 84-85

T

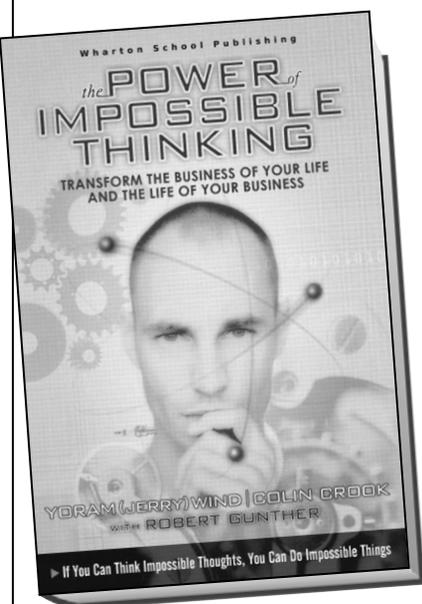
- technical competencies, differentiating
 - competencies, 5-10
- technical intelligence, 5
- Thomsen, Jim, 96, 155
- The Thomson Corporation, 141-142
- thoughts
 - behavior frame, 60
 - experiential triangle, 74-75
 - positive self-talk, 121-122
 - understanding, 119-120
- threshold competencies, 5
- Thrivent Financial for Lutherans
 - Bradley, Walt, 80
 - Moret, Pam, 129-130
 - Thomsen, Jim, 155
- Truman, Harry, 94
- truth, integrity, 82
 - exceptions to honesty, 85-86
 - fueling performance, 87
 - hostility, 86
 - leadership, 82-84
 - self-awareness, 86-87
 - subordinate performance, 84-85
- Twain, Mark, 214
- Twin Cities Telemarketing, 186

U-V

- Ueland, Craig, xxxi-xxxii
- United Nations Declaration of Rights, 34
- United Technologies Corp., 16
- universal moral compass, 20
- universal principles, xxxiii, 20-21, 41-43
- University of New Hampshire, 5
- values, 43-45
 - identifying, 45-48
 - integrity consistency, 80-82
 - moral intelligence, 14
 - morally intelligent organizations, 157-159
 - employee recruiting, 178-179
 - global organization, 183
 - resonant leaders, 179-180
 - small organizations, 190-191
 - compassion, 194
 - five moral maxims, 197-204
 - forgiveness, 194-196
 - integrity, 191-192
 - moral impact, 196-197
 - responsibility, 192-193
- values log, 47-48
- viruses, moral
 - diagnosing, 69-70
 - disabling, 71-72
 - managing, 70-71

W-Z

- Waletzko, Don, 196
- Warner Lambert, xxxv
- Watson, Thomas, 112
- WDYWFY (what do you want for yourself),
 - goals worksheet, 55-56
- weaknesses
 - 80/20 rule, 219-220
 - moral development, 218-219
- Williams, Redford, xliv
- Winfrey, Oprah, 54
- Woodward, Mike, 106
- Working with Emotional Intelligence*,
 - xxxiii, xlii, 8
- worksheets
 - beliefs, 51-52
 - embracing universal principles, 41-42
 - goals, 54-56
 - identifying core values, 46-48
 - MCI (Moral Competency Inventory), 238
 - writing goals, 58-59
- workshops, moral development, 226
- WorldComm, 94
- Wright, Frank Lloyd, 50
- Yale University, 5
- Young & Rubicam, 177
- Zelle, Charlie
 - compassion, 107
 - moral competence, 65
 - moral intelligence, 65
 - serving others, 101
- Zore, Ed, 4
 - interpersonal effectiveness, 128
 - understanding thoughts, 120
 - universal principles, 42



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