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Good Business

Gary O'Hagan 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'Hagan 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, *EnviroNics 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.