

The State of
**Moral
Leadership**
in Business

**HOW Metrics®: New Metrics for a New
Reality – Rethinking the Source of
Resiliency, Innovation, and Growth**

A Message from Dov Seidman



The world is not just rapidly changing; it is being dramatically reshaped — it operates differently. Unprecedented and unfamiliar forces are disrupting everything in their wake, including leadership itself. Formal authority and hierarchical power were once sufficient to lead and to get things done, but today’s imperatives call for a new leadership playbook, one grounded on moral authority.

As we all know, our systems can’t function without leaders with formal authority — whether these leaders are our Commander in Chief, our CEOs, or our school principals. What makes our systems really work, however, is when the leaders who are occupying these formal positions have moral authority. Formal authority can be won or seized. Moral authority, in contrast, must be earned every day by who you are and how you lead.

Moral leaders inspire people to join great endeavors. They enlist them in noble purposes and encourage them to embark on journeys worthy of their dedication. Moral leaders elevate others’ consciousness and behavior. They trust people with the truth — however bright or dark — and are animated by values, especially humility. They do the right things, especially when they are difficult or unpopular.

We recently conducted a study into the state of moral leadership in business. We suspected that there is a scarcity of it in our corporations, and the findings of our study confirmed our hypothesis.

Our aim was to measure the presence and absence of moral leadership in corporations today, as well as to examine the impact of having it, and the price companies pay when CEOs and business managers do not demonstrate moral leadership. The adage that “what we measure is what we get” remains as valid as it has ever been; we now need a reliable method by which to measure how we are leading and to evaluate whether we are developing business managers with the capacity to lead effectively in a reshaped world.

The State of Moral Leadership in Business is the most recent installation of HOW Metrics®, our ongoing effort to evaluate how governance, culture and leadership influence behavior and impact performance in organizations. This report proposes new metrics to more effectively manage organizations and ecosystems.

It is our sincere hope that this report will encourage leaders to take more certain and powerful steps to meet the unique challenges and opportunities of our reshaped world.

A handwritten signature in black ink that reads "Dov Seidman". The signature is fluid and cursive, with the first letters of "Dov" and "Seidman" being capitalized and prominent.

Dov Seidman
Founder and CEO, LRN
Author, *How: Why HOW We Do Anything Means Everything*

Organizations Perform Better When Formal Leaders Lead with **Moral** Authority

LRN surveyed over 500 people working across the U.S. in order to understand the state of moral leadership in business and whether moral leadership on the part of business managers leads to better business outcomes.

Leaders with moral authority are animated by a worthy and noble purpose, connected to human progress, and the betterment of the world. They connect deeply with, inspire, and elevate others. They have the courage to speak out for their principles. They ask the tough, uncomfortable questions about right and wrong, and they consistently seek to shape their organizations' cultures so that others do so as well.

Major Findings

Employees Yearn for More Moral Leadership.

Employees want moral leadership from their managers and from those at the top of their companies, believing it will make their organizations better. The vast majority of employees (83%) think their companies would make better decisions if they were to follow the Golden Rule, and 59% of employees think that their organizations would be more successful when taking on their biggest challenges if their leadership had more moral authority.

Moral Leadership Is in Short Supply.

Employees don't see sufficient evidence of moral leadership from their management. In fact, only 23% of employees say that they have observed their managers demonstrating the qualities and behaviors of moral leaders, and only 30% say that their CEOs demonstrate the qualities of moral leadership.

Moral Leadership Leads to Stronger Performance.

When managers lead with humility, they are 22 times more likely to be trusted by their colleagues. When managers are able to make themselves small, thereby creating an atmosphere where others can stand up and deliver great performance, they are 11 times more likely to achieve their business goals.

A Foundation to Build On.

The good news is that 75% of employees say that their leaders behave in accordance with company values, and that they usually make ethical decisions, with 65% saying that they do so even if times are hard for the organization – but these are just table stakes. What needs attention is developing a new leadership playbook that puts the organization's purpose and values at the core of how it operates, elevates colleagues so that they can make a greater impact, and maintains an unwavering focus on doing the right thing.



The Case for **Moral** Leadership in Business

At its essence, business is about human endeavor – the drive to solve a problem, to build something significant, to help others, or to make a contribution and improve our world. To create a context in which people truly collaborate in such a venture, taking both accountability and responsibility, freely giving of themselves and unleashing their passions, demands great leadership.

Great business leadership has always been a challenge. Today's volatile, ambiguous, and complex environment makes it more difficult than ever.

People are finding it increasingly difficult to appreciate one another's differences, to engage with respect and civility, and to align their shared conceptions of the truth. Every difference in perspective seems personal, and the choices of others are often judged harshly, without consideration of nuance or perspective. Emboldened and empowered by social media, anyone can amplify a sentiment with a tweet or post about who's good or bad – to a potentially global audience.

Companies are increasingly being called upon to articulate what they stand for and the ethos of their business and operating models. What choices your organization makes – and whether they are ethical – impact confidence in you, and affects whether stakeholders want to work with you. Additionally, these choices can determine whether your best employees choose to stay with you and how your customers feel about you.

We are in the midst of a unique moment of new and heightened consciousness. People are listening to long-silenced voices, and we are being challenged to renegotiate norms and to build new expectations and standards that reflect what we expect from each other and from the workplace.

All of this is happening at a time when technologies are granting us new visibility into the innermost workings of business and organizations, and even into the mindsets and behaviors of business leaders. At the heart of the matter is whether we like what we see, and too often we don't.

Today's business challenges require leaders who are animated by a worthy and noble purpose and who are connected to human progress and the betterment of the world. These leaders inspire and elevate others and have the courage to speak out for their principles. They wrestle with questions of right and wrong, and they shape their organizations' cultures so that others can raise their voices and be inspired to do so as well.

We call this moral leadership.

You don't become a moral leader by being granted a title or a position. Moral authority isn't accumulated through promotions or by delivering better results. Moral authority must be earned every day, by how you show up and how you behave.

The implication is real for every CEO, executive, and manager. In order to do their jobs, formal leaders must build and wield moral authority. Most importantly, this is not only about words or intentions – moral leadership is reflected in a leader's behavior.

In order to understand the state of moral leadership in business, LRN recently surveyed over 500 employees working across the U.S. The research aimed to gauge whether moral leadership on the part of business managers leads to better business outcomes, and the extent to which those leaders are, in fact, demonstrating the qualities and capacities of moral leadership. Here is what we found.



“ Our systems can’t function without leaders with formal authority – whether our Commander in Chief, CEOs, or school principals. But, what makes them really work is when leaders occupying those formal positions — from business to politics to schools to sports — have moral authority. Formal authority can be won or seized, but moral authority has to be earned and sustained every day by who you are and how you lead. ”

- Dov Seidman, Founder and CEO of LRN

Fig. 1 The Demand for Moral Leadership



think that their companies would make better decisions if they followed the Golden Rule (i.e., “Treat others as you would have them treat you.”)



think that their colleagues would do a better job if managers at their company relied more on moral authority as opposed to their formal power



think that their organizations would be more successful in taking on their biggest challenges if their leadership had more moral authority

Employees Yearn for Moral Leadership

Employees want to see a higher standard of behavior within their organizations. They want them to be more ethical, to make a real contribution, and to take greater responsibility for society and societal challenges. They believe that doing so will make their companies more successful.

Four in five employees (83%) think their companies would make better decisions if they followed the Golden Rule that is, “Treat others as you would have them treat you.”

Employees recognize the unique role of leaders in creating these types of organizations, and in particular the imperative for managers to build and effectively exercise moral authority to do so.

The majority of respondents (59%) think that organizations would be more successful when taking on their biggest challenges if their leadership had more moral authority. In addition, the majority of employees (62%) also believe their colleagues’ performances would improve if their managers relied more on their moral authority as opposed to their formal power.

Formal authority alone is insufficient to take on the big strategic challenges of our moment. Our analysis found that when managers take a firm stand on moral topics, when they ask the difficult questions about right, wrong, justice, and fairness, and when they trust people with the truth even if it precipitates personal risk, their colleagues are 17 times more likely to consider them to be the right person for the job.

Fig. 2

Demonstrate Moral Courage

Managers who score high on showing moral courage by stating the truth, taking a stand, and focusing on issues of justice and fairness are 17 times more likely to be considered the right person for the job.



Showing Moral Courage

- 17%** of employees say that their leaders almost always state the truth, even if doing so creates some personal risk
- 13%** of employees say that their leaders almost always take a stand on moral topics, even if not directly connected to business objectives
- 13%** of employees say that their leaders almost always ask difficult questions about right, wrong, justice, and fairness

For a detailed discussion of our methodology, see page 19.



Moral Leadership in Short Supply

Despite the overwhelming demand for moral leadership, most CEOs and managers are falling short.

Only 30% of employees say that their CEOs demonstrate behaviors that are reflective of moral leadership.

One in five – 20% – say that their CEOs pursue a significant and noble purpose, one that will make the world a better place. Only 15% percent of employees say their CEOs elevate others through empathy and connection. Only 22% say that their CEO is almost always animated by virtue and principle, possesses high integrity, and is committed to doing the right thing.

Nineteen percent of employees say that their CEOs are committed to building moral knowledge and to consistently learning and growing, and only 20% say that their CEOs are invested in helping others to develop the wisdom to make the right call.

In regards to the managers and executives with whom employees work more closely, only 23% of employees say that those managers are moral leaders.

Specifically, only 12% of employees say that their managers make time to speak with them about why their work is meaningful. Only 26% say that their managers treat their colleagues as people, not just as resources to get the job done. Additionally, only 13% of employees say that their managers are willing to take a stand on important moral topics.

Our research indicates that employees believe that their managers lack moral courage. Only 17% say that their leaders stand up for people who are being treated unfairly. Only 15% say their leaders proactively communicate things that are hard to share, and only 17% say that their leaders put principles first when compensation is involved.

Interestingly, more than 60% of employees report that their direct managers ask for and expect their loyalty. Moral leaders, however, distinguish between what they can ask for and expect of their employees, and what they must inspire in colleagues.

Fig. 3 Prevalence of Moral Leadership



describe their CEO as showing the qualities and behaviors of moral leadership*

*Percentage of employees who describe their CEO as exhibiting the qualities of moral leadership. For a detailed discussion of our methodology, see page 19.

Fig. 4

Moral Leadership in CEOs



Fig. 5

Prevalence of Moral Leadership



describe their managers and executives as showing the qualities and behaviors of moral leadership*

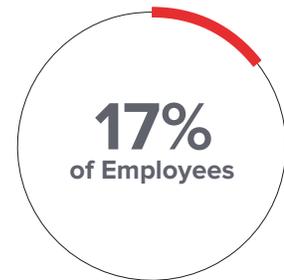
*Percentage of employees who described their managers and executives as exhibiting the qualities of moral leadership. For a detailed discussion of our methodology, see page 19.

Fig. 6

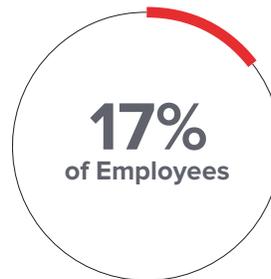
Moral Leadership in Executives and Managers



say that their managers almost always treat colleagues as people, not just resources to get the job done, even behind closed doors



say that their managers almost always stand up for people who are being treated unfairly, even when risking relationships



say that their managers almost always put principles first, even if compensation is involved



say that their managers almost always state the truth, even if doing so creates some personal risk



say that their managers almost always take a stand on moral topics, even if they are not directly connected to business objectives



say that their managers almost always take the time to speak with their colleagues about why their work is meaningful

Start with a **Pause**

In order to rise to the challenge posed by the need for moral authority, we must embrace the concept of the pause. When employees pause, they can make sense of a situation, reconnect with their values and principles, and reimagine a better way of doing things. During the pause, they can show empathy for others or find the courage to take a principled stand.

In our go-go-go business environment, creating space to pause can seem harder than ever. Only two in five employees say their leaders create any opportunities for their teams to pause and reflect. In fact, the act of pausing actually spurs productivity. Leaders who encourage their teams to pause and reflect on how they are living their purpose and values are 11 times more likely to achieve their business goals.

Fig. 7 **The Imperative to Pause**

Managers who score high on encouraging their teams to pause are 11 times more likely to achieve their business goals.



are **11x**
more effective



13%

of employees report that their leaders almost always encourage their teams to pause and reflect about how they are living their purpose and values



A Call for Humility

Humility is not false modesty. It is the *modus operandi* of moral leaders. It does not imply a lack of confidence, an inability to act decisively, or an unwillingness to take big risks. In fact, it underscores these traits and fuels the way in which moral leaders can bring others together to collaborate in pursuit of a bold vision.

Leading with humility poses a particular challenge for senior executives and middle managers.

As a case in point: only 14% of employees say that their managers acknowledge their own failings, and only 13% of employees say that their managers make amends when they get something wrong. Only 14% say that their managers change their minds when faced with evidence that they've taken the wrong course, and only 6% say that their managers have the confidence to ask for help in a way that exposes a weakness or vulnerability.

Moral leaders temper their egos. They admit error, change their minds when they get it wrong, and ask for help. These behaviors are the opposite of weakness, as it takes real strength to do these things. The mantle of moral leadership doesn't ask for perfection. Rather, it requires a commitment to seek help when it is needed and a readiness to extend trust to others. By doing so, leaders inspire their employees' deepest and fullest collaboration.

When managers lead with humility, they are more likely to get things right. Through the way they engage, others are inspired. Moreover, when managers lead with humility, they build trust. In fact, our research indicates that managers who score high on leading with humility are 22 times more likely to be trusted by their colleagues.

Fig. 8

Embracing Humility

Managers who score high on acting with humility by acknowledging failings, changing their minds when they realize they are wrong, making amends, and asking for help are 22 times more likely to be trusted by their colleagues.



Acting with Humility

14% of employees say that their leaders almost always acknowledge their failings

14% of employees say that their leaders almost always change their minds when they realize that they were wrong

13% of employees say that their leaders almost always make amends when they get things wrong

6% of employees say that their leaders almost always ask for help in a way that exposes their vulnerability

For a detailed discussion of our methodology, see page 19.



“ The mantle of moral leadership doesn't ask for perfection. Rather, it requires a commitment to seek help when it is needed and the openness to extend trust to others. By doing so, leaders inspire their employees' deepest and fullest ”

Beyond Empowerment

Moral leaders do more than just empower their employees – they unleash them. They shape their organization’s culture so others can give fully of themselves, they pursue their purpose with passion, they bring their fullest humanity to the workplace and, in so doing, they outperform the competition.

One of the reasons why employees rate their managers so low on moral leadership is that they take up too much space, stifling their employees’ abilities.

Only 16% of employees say that their managers shine the spotlight onto others. Only 15% say that their managers create space for others to lead. Only 7% say that their managers make themselves small so that others can do big things.

It’s time for managers and executives to move beyond “empowerment.” Granting an employee circumscribed decision rights, or assigning responsibility for an initiative, is no longer enough.

Moral leadership is about staying present and involved while being able to make oneself small, to contract and create an atmosphere where others can stand up and deliver a great performance. Managers and executives who get this right are nine times more likely to achieve their business goals, according to our analysis.

Fig. 9

Contract and Elevate

Managers who elevate others by sharing the spotlight, creating space for others to lead, and making themselves small so that others can do big things are nine times more likely to achieve their business goals.



Elevating Others

- 16%** of employees say that their managers almost always shine their spotlight on others (rather than on themselves)
- 15%** of employees say that their managers almost always create space for others to lead
- 7%** of employees say that their managers almost always make themselves small so that others can do big things

For a detailed discussion of our methodology, see page 19.

A Foundation to Build On

Employees want moral leadership from their managers and from the top of their companies. Fortunately, our results point to a strong foundation upon which leaders can build.

Employees score the majority of their managers and executives as having a strong ethical core. Sixty-five percent of employees say that their managers make the right, ethical decision, even when the business is facing difficult operational challenges. Three-quarters of employees say that their managers behave in accordance with company values, even when nobody is watching.

The majority (70%) of employees see their managers as having equanimity, being supportive through the ups and downs that come with taking on big challenges (61%), and being open to engaging in two-way conversations, irrespective of seniority (62%). Most also see their managers as trying to cultivate an inclusive workspace (65%).

Managers and executives can and should leverage these capacities and behaviors in order to develop into a moral leader – one who is fully committed to a broader purpose, elevates others, leads with patience and courage, and is attuned to issues of right and wrong.

Fig. 10

Stepping Stones to Moral Leadership



say that their leaders often or always behave in accordance with their company values, even when nobody is watching



say that their leaders often or always stay composed even in extremely stressful situations



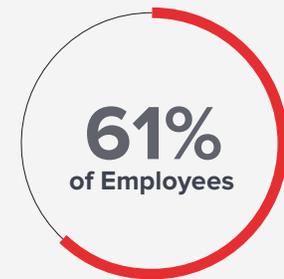
say that their leaders often or always make ethical decisions, even if the times are hard for the organization



say that their leaders often or always cultivate an inclusive workspace



say that their leaders often or always engage in thoughtful two-way conversation with those they work with, irrespective of seniority



say that their leaders often or always support colleagues through the ups and downs that come with taking on big challenges

The Path Ahead

What more can leaders do to move the morality needle in their organizations?

LRN's CEO, Dov Seidman, has outlined four guideposts to help build and sustain moral authority.

1. Let Purpose Lead.

Leaders gain moral authority when they define a worthy and noble purpose for their organizations, one connected to human progress. They see the path ahead as a journey, one with ups and downs, and create space and opportunity for others to join them on it.

3. Be Animated by Values and Virtues.

Instead of focusing on doing the next thing right, moral leaders focus on doing the next right thing. They speak up for their principles, even when it makes them uncomfortable, or is difficult or inconvenient. They move forward with both courage and patience.

2. Inspire and Elevate Others.

Moral leaders ask people to be loyal not to them, but rather to the overall purpose and mission of the organization. They see their colleagues as full partners and as full people. They listen to and learn from those whom they lead.

4. Keep Building Moral "Muscle."

Being a moral leader requires constant wrestling with questions of right and wrong, fairness and justice, and with ethical dilemmas. Leaders should never stop asking if what they and the company are doing is compatible with their purpose and mission, and should regularly invite everyone to join in with these discussions.

Shaping an Organization's Operating System

Leadership is about making things happen. The crucial difference between moral leaders and others is in the HOW.

Moral leaders elevate consciousness. They deliberately shape culture. They see the limitations of systems that overemphasize incentives, hierarchies, and compliance, instead emphasizing meaning, values, and trust.

In prior research, LRN found that organizations fall into one of three archetypes, each with a distinct and differentiated pattern of individual and organizational behavior – Blind Obedience, Informed Acquiescence, and Self-Governance. See below for a description of each archetype.

Our research (the HOW Report®) found that moral leaders build Self-Governing Organizations, in which colleagues are animated by a mission of significance grounded in deep and sustainable human values. At the same time, all are encouraged to lead.

The HOW Report is based on comprehensive data collected from 16,000 employees in 17 countries. We found that Self-Governing Organizations produce better business outcomes according to all meaningful measures.

A Framework for Organizational Culture

LRN's work has found that three systems influence individual and organizational behavior: governance, culture, and leadership (GCL). Governance refers to formal structure, rules, and policies. Culture refers to norms, traditions, habits, and mindsets. Leadership refers to how managers behave, as well as to the source of authority and how it is exercised. Through this GCL lens we have identified and described three dominant archetypes and assessed the impact of each on organizational performance, details of which are given below.

Blind Obedience

Power-based, task-driven organizations that operate through command-and-control-based principles and policing, and which place little emphasis on building enduring relationships among colleagues, with customers, or within society. Employees are coerced to do as they are told under the threat of punishment or adverse consequences. Such organizations focus on short-term goals.

Informed Acquiescence

Rules-based, process-driven organizations that operate through hierarchy, policy, and 20th-century "good management" practices. Employees are motivated by performance-based rewards and expected to fulfill the expectations of their roles. Long-term goals are identified but often set aside in favor of short-term success.

Self-Governance

Purpose-inspired, values-based organizations that are led with moral authority and operate with a set of core principles and social imperatives. Employees are inspired by a desire for significance and encouraged to act as leaders regardless of role. Such organizations are focused on long-term legacy and sustainable performance.

The HOW Report®

The HOW Report is based on comprehensive data collected from 16,000 employees in 17 countries. We found that Self-Governing Organizations produce better business outcomes by all meaningful measures.

The **Moral** Imperative of Modern Leadership

We have increasingly observed a call for a greater emphasis on moral leadership. In our hyper-transparent world, with each passing crisis and scandal, the urgency and demand for moral leadership intensify.

We believe this poses a massive opportunity for those companies that are capable of rethinking how they lead and that are making a deliberate effort to develop moral leaders at all levels of the organization – not just to do something good for society, but to create a long-term sustainable advantage.

This study finds that employees agree with us.

As trust in government and other authorities continues to erode, business executives have the duty to step up and fill the void, both through how they lead and how they shape their organizations. The world needs business leaders who are willing and ready to take a stand on issues of right and wrong, and who have the leadership capacity to bring their institutions with them.

The leadership the world needs today is moral leadership.





Methodology

The theoretical foundation of this study was developed by Dov Seidman in his book, *HOW: Why HOW We Do Anything Means Everything*.

A total of 515 full-time employees in the U.S., across a number of major industries and occupations, rated 53 behavior markers of moral leadership. These included 48 markers for managers and executives and five for CEOs. Participants rated five business performance markers for managers and executives and three perception items. Behavior markers, performance indicators, and perceptions were rated on a five-point Likert scale (almost always true to almost never true). Another 10 behavior markers were rated on a dichotomous scale (Yes or No).

Respondents were asked to answer each of the behavior and business-performance marker questions based upon their personal observations and direct experiences of their work environment. To minimize bias, survey items were randomly presented, and the final sample excluded anyone whose survey-taking behavior demonstrated low engagement.

To establish the presence of moral leadership in managers and executives, participants had to respond “almost always true” to at least 75% of the 48 leadership behaviors and characteristics associated with moral leadership in managers and executives. Respondents who responded “almost always true” on at least 75% of questions that address the five leadership behaviors observed in their CEO were considered to have a CEO demonstrating moral leadership.

Figures 2, 6, and 7 show the relationship between specific themes of behavior markers and business outcomes. We created three composite indices to measure various dimensions of moral leadership in managers and executives, the accuracy of which was validated using statistical reliability testing. Participants were categorized as having leaders who score high on an index if they responded “almost always true” to at least 75% of the behavior markers associated with that index. Where respondents gave the answer “almost always true” to 25–75% of the markers, the leaders were categorized as scoring medium. When this response was returned for under 25% of the markers, the leaders were categorized as scoring low. We then quantified the difference in performance between employees scoring their managers high and employees scoring their managers low for each theme.



About HOW Metrics®

HOW Metrics® is a suite of cutting-edge assessment solutions that enables organizations to better understand behaviors and forces that animate behavior across their systems. The 20th century adage that “you manage what you measure” remains as valid as ever, and in a globally interdependent world, the choice of what you measure matters more than ever before. HOW Metrics helps leaders rethink the fundamentals of how they lead, govern, and operate companies and institutions.

Through HOW Metrics, LRN provides deep insights into organizational performance with a focus on employee and stakeholder behavior. LRN has helped organizations across industry sectors benchmark effectiveness, define new corporate priorities, assess program impact, and catalyze action toward principled performance. LRN’s assessment solutions are based on tested methodologies developed by a team of leading practitioners. They include a comprehensive set of qualitative and quantitative research methodologies.

In addition, LRN provides a full suite of strategic advice, program support, and education solutions to help organizations become more values-based and human-oriented. Our approach combines a cross-section of experts and practitioners with proprietary frameworks and analytics — and tested processes and approaches — all based on the idea that organizations can outperform by focusing on how they behave. LRN emphasizes rigorous measurement, rapid learning, and deep collaboration to help its partners journey to Self-Governance in a more deliberate and systematic way.

About LRN

Since 1994, LRN has helped more than 20 million people at 700-plus companies worldwide simultaneously navigate complex legal and regulatory environments, meet their compliance obligations, and foster ethical cultures. LRN’s combination of practical tools, education, and strategic advice helps companies translate their values into concrete corporate practices and leadership behaviors that create sustainable competitive advantage. In partnership with LRN, companies need not choose between living principles and maximizing profits, or between enhancing reputation and growing revenue: all are a product of principled performance. As a global company, LRN works with organizations in more than 100 countries. For more information, visit www.LRN.com, or find us on Twitter @LRN.