Every business leader must at some point answer ethical questions — and often the answers to those questions have a real impact on the business. In this Thought Leader Forum, we examine the various ethical quandaries organizations face and dig into strategies for leaders to make the right decisions for their businesses and their communities. Participants were Pat Callans, executive vice president, administration at Costco, Jon Fine, CEO of United Way of King County, Marilyn Gist, Ph.D. and associate dean of executive programs, Center for Leadership Formation at the Albers School of Business and Economics at Seattle University, and Carol Nelson, former pacific region executive and market president of KeyBank. The panel was moderated by PSBJ Publisher Emily Parkhurst.

**Parkhurst:** What are some of the ethical issues that businesses are facing now?

**Nelson:** Some issues—harassment, discrimination—are not new. But today more light is being shed on them, which is good. Other issues are those I would lump together under compliance, governance and accounting practices. These include leadership issues, the role of the CEO, and corporate financial accountability. Other issues include employee theft and embezzlement, and the use of artificial intelligence. It’s a very disruptive technology, so how do you harness it?

**Parkhurst:** That’s a great overview. Anybody want to dive into any of those?

**Fine:** What I see is heightened scrutiny from employees, customers and media. This has put organizations under a magnifying glass about all of the issues raised here. I would also add diversity. As our community and world have gotten more diverse, that has become a prominent issue. And income inequality — who benefits from the growth and productivity we’ve all experienced nationwide and especially in this region?

**Gist:** The conversation on diversity has been going on for 50 years. But it, too, has been elevated to include things like the lack of diversity at senior levels of management. You see the legislation passed in California about diversified boards. So there’s proactivity around some issues of ethics.

**Parkhurst:** Pat, anything you want to add?

**Callans:** Everything for me is colored by my Costco experience. We have a code of ethics, and we talk about taking care of our member customers and employees, and respecting our suppliers. Ethically, I think about the safety of our members in our...
Parkhurst: How, in all of your experiences, have ethics and business changed over the years? Have there been issues that have faded in importance, or increased?

Fine: When I was in business school in the 1970s, Milton Friedman visited our class and said it’s the corporation’s job to maximize profits. And that’s it. And some people said, “Well, maybe there’s more to it than that.”

Gist: Today’s undergraduate students grew up with technology, and they are massively immersed in social media. The expectations they will bring to the workforce are very different than what we saw even a decade ago. This includes their awareness of diversity issues and harassment, or the focus on purpose over profit.

Parkhurst: How has technology sped up people’s reactions, which can lead to jumping to conclusions more quickly. We should think about interacting with a little humility and the recognition that we may not have the whole story.

Callans: There’s a certificate that younger employees have about what’s right and wrong. And you have to listen to that. I started my career as a lawyer and ethics was all rule- and code-based. As long as you followed the rules, you were okay. Costco’s code of ethics includes obeying the law, but the law is the minimum. We must do more than that.

Nelson: As leaders, it also forces us to step back and see our businesses and our lives through the eyes of this younger generation, because we shouldn’t be quick to dismiss some of the things they come up with.

Parkhurst: We’ve talked about this younger generation surfaced some of these ethical questions that maybe hadn’t come up before. Are they powerful enough to push companies to actually make changes, or is it too soon?

Gist: I think they are. For example, the NRA’s financial position being at risk can’t be traced in part to the activism of the youth from the Stoneman Douglas High School shooting. They said things have to change and created a national movement via social media. The boycott of drug manufacturers, similar to forgoing donations from tobacco and gambling interests.

Nelson: I participated in a recent town hall with employees from United Way. What came through to me loud and clear was their focus on viewing the world and running the organization with a racial equity lens.

Parkhurst: Let’s jump into technology. Obviously, it’s changed a lot of things and raised some new ethical issues. Let’s talk about AI and data and the ethical challenges that come along with that. What has risen to the top recently in your businesses?

Nelson: I read a recent study that found FinTechs (companies that use technology to provide financial services) that use AI models in loan underwriting were charging minority borrowers higher rates of interest. Kind of scary, right? AI is used to evaluate a borrower’s needs, their financial statement, and so on. How do you make sure there aren’t built-in biases that cause you to have those kinds of inequitable outcomes?

Parkhurst: That’s a great example, next to 15 years. And it’s not just the disappearance of cashiers, like at Amazon Go. Many of the tasks within accounting or fintech can be coded using AI so automation will be cutting into white collar jobs as well. So the question becomes, how do you balance what automation can do with a human workforce?

How do we take our current workforce, prepare for that transition and look at how to retrain people so they’re not simply displaced? I would argue that managing that transition might be an ethical issue as well.

Parkhurst: It’s interesting you mentioned the Amazon Go stores. Some municipalities have forced the company to employ cashiers to deal with the un-banked populations so they can accept cash.

Gist: That’s a perfect example of a business decision that had unexpected ethical implications. There’s a fair-sized un-banked population that otherwise would be discriminated against.

Nelson: And then you combine the outsourcing with AI. Some of the biggest tech spending banks do is around chabots. They can replace individuals throughout the company with a machine that responds to client requests.

Fine: I believe society can weather this. As we evolved from agriculture to industry, industry to knowledge, we displaced a lot of jobs, but we created a lot of new jobs. The key is to train the new workforce and to get them capable of dealing with new ways of doing business.

Gist: I agree with you with the caveat that the evolution hasn’t happened in a uniform way. I would venture there are places that haven’t kept up, and that have lost manufacturing jobs and have very different opinions. We have left millions of people behind, because the location of new jobs has been more along the coasts.

Parkhurst: What happens when there are disparate stakeholders in an ethical issue? For example, a public company has to answer to its shareholders. But that doesn’t always align with some of the ethical issues that arise. How do you deal with that?

Fine: Two things: one, you have to be aware of a widespread group of stakeholders. Shareholders alone do not totally rule. And second, you have to have a long-run point of view.

Callans: In every annual shareholder meeting at Costco, we all agree that our CEO puts up relates to employees and our pay and benefits. You would think this might be seen as a negative, because it’s a cost, but it almost always ends up being an applause line.

Parkhurst: Making that business case is key. Costco has done a really nice job of making the business case for paying employees well. Can you talk about that?

Callans: Yes, it goes back to the company’s beginning. Some might see it as Costco trying to do the right thing because we do care about employees. But there is a business reason as well. It helps us attract and retain the best employees anywhere. We’re reliant upon huge sales in all of our locations. The only way we’re going to do that is if we have productive, efficient, dedicated workers.

Nelson: We refer to this as a virtuous cycle. Employee satisfaction can lead to higher productivity which enhances client satisfaction and ultimately leads to increased shareholder value.

Parkhurst: So it can be done?

Fine: Yes, although there’s tension on both sides. There is pressure for immediate cost savings in some places, or sales goals that are unrealistic. But there’s also a recognition that business is going to be around for a long time, and you need multiple parties to be pleased with what you are doing.

Parkhurst: That’s great to hear. How can organizations evaluate those long-term needs and test, ethically sound as you say, to try to manage short-term expectations?

Nelson: It really is the role of leadership, starting with the CEO and board. You have to be resolute in your mission and goal of ultimately providing that shareholder value through this process.

Parkhurst: I like that, the idea of being resolute. What does that look like when you’re going to work every day, being...
resolute about your ethics, even if there is pressure for short term? How does that play out?

Nelson: It’s a discipline you have throughout your company. Your strategic priorities are very clear on how you’re going to execute your plan.

Callans: It’s making sure that the actions of leadership are consistent with the words of a mission statement or code of ethics.

Fine: There can be difficulty in navigating some of these issues in a world where lots of people have different opinions about them. We face at United Way, because we have a big tent with a lot of people who want us to do different things. We need to be careful about recognizing the diversity of opinion and the difficulty of deciding some ethical issues in favor of one group over another.

Parkhurst: So when does the ethical become political?

Gist: Part of leadership is forging consensus across different groups, bringing them together, and having what’s often the messy and long conversations to get clarity around at least some goals we can agree on, and then setting a vision for moving forward. It’s very hard to do, but we should not abdicate just because there are differing opinions about it.

Fine: I actually think it’s harder for the Costcos and Key Banks of the world. Who do you lend to? Or what are you prepared to say? How do you deal with those questions?

Nelson: The good fortune of our industry is that we have underlying regulations that help us set the ground rules for what we should do. But stepping back, our business is focused on doing the right thing, but the right thing to you may look different to someone else. That goes back to being able to view the world through the eyes of other different stakeholders.

Callans: We’re getting better at listening to a lot of different voices. But at the end of the day, a decision has to be made. Leadership must be able to hear a lot of different voices and opinions, and then explain their decision and why they made it. And then realize you can’t please everybody.

Fine: There’s room for the political process. Here are two messy examples. One is what Microsoft and Google are faced with, providing software to the Defense Department and the Department of Homeland Security, and plenty of their employees don’t want that. And yet the country has said, we need a Defense Department. Another is banks lending to pipelines and environmental protests against that.

Callans: Something retailers face is the fact that we sell some products that are not particularly healthy for people. We have to walk the line between listening to those voices and serving members who want these products. Our leadership needs to be able to work this through and talk about it and be transparent.

Parkhurst: I love that idea of transparency in the decision making process. Making sure the customers know why you’re making the decisions you’re making. Is there a demand for transparency now?

Fine: Transparency is good for our society, and we should move in that direction. And yet our polarized society has not really accepted it all that well. It’s a bit of, you told me what you’re going to do. But I wanted you to do this, and I’m mad. And now I’m on social media telling you that.

Callans: It goes back to being resolute though, right? If you feel like you’re doing the right thing, you have to be resolute regardless of the criticism you might get.

Parkhurst: On the flip side, are there moral absolutes in business? Are there things that should guide markets that you can’t stay from?

Gist: I think human dignity is an absolute. For any leader, CEO on down, a recognition of that fundamental fact should guide decision making. That recognition will help us transition into some of these next-gen ethical issues like why do we have such vast income inequality? Is it appropriate for CEOs to make $250 to 300 times what the rank and file are making? A concern for human dignity can guide some of those decisions in new ways.

Nelson: Beyond the letter and spirit of the law, we should have a set of essential core values as companies that we try to follow, and make them something that’s living and breathing in the organization, not just something on a poster in the break room.

Parkhurst: Do you have any thoughts on that, Pat?

Callans: I also want to respond to the idea of human dignity. An absolute in business today is the humility of leadership. We expect our leaders to be highly competent and experienced, but the absolute is for a CEO and leadership to have humility and to be in service to employees, and to customers.

Parkhurst: How about the larger question of social responsibility. How do you determine what a company’s role should be within that social responsibility? Look at what Nike did with the Colin Kaepernick advertising campaign. As a company, how do you decide which role you’re going to play?

Nelson: For us, social responsibility is part of being a good corporate citizen in the communities we serve. We institutionalize it within our company. We have a social responsibility council of leaders that meets to address issues in this realm and then establish priorities for the company. Included in this would be our Diversity and Inclusion strategy and supplier diversity, and how we utilize employee affinity groups.

Gist: My thought on the Nike example is that it was a business decision based on who their customers are. It’s huge diversity population. And so stepping into that, even though it might have been very difficult, was supporting that customer base. And the Kaepernick campaign wasn’t their first foray into that kind of unchartered territory. They were the first company to advertise a woman wearing a hijab, showing the face and diversity of athletes, remember?

Parkhurst: Let’s talk about social responsibility, is there a place for organizations and their leaders to take on more of an activist role and try to move the needle on issues that they believe need to be moved?

Fine: There is major room for social responsibility and for business leaders to be more proactive. I don’t think it necessarily means political, though at times it can. But the logic of social responsibility is that many stakeholders care about it. I’d be careful about moving into political areas cavelierly, because there are many different points of view. What the heartland wants versus what the coasts want can be very different. If you want to be a national company, you’ll need to navigate that with some degree of humility.
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