

## Principled Leadership: A Model for the “Reset” Economy



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In 2008, the world as we knew it turned upside down. The global economy careened perilously close to collapse and governments around the world made dramatic interventions to save financial institutions “too big to fail.” Billions of dollars in wealth evaporated, hundreds of thousands of employees lost their jobs, and thousands of organizations failed.

Today, we navigate in uncharted waters. We can no longer rely on many of the “truths” that served as our ballast, shaped our understanding and judgments, and guided our site lines into the future. Many of the systems and institutions that structured our commerce, our society, our economy, and the use of our environment have been shaken to their foundations.

As Jeffery Immelt, CEO of General Electric, declared in a recent speech at the Business for Social Responsibility Conference, “This economic crisis doesn’t represent a cycle. It represents a ‘reset’—an emotional, social, economic reset. People who understand that will prosper. Those who don’t will be left behind.”

It is surprising that in all of the reflections on the economic crisis and the changes it has precipitated, there has been little discussion of its implications for organizational leadership. And yet, leadership failure and the relentless focus on short-term results were key factors contributing to the crisis.

To extend Immelt’s metaphor, the economic crisis calls for a “reset” of our concepts of effective leadership. As we reposition our companies and organizations to thrive in a new reality, we need to ask ourselves, how do we lead now? And, how do we want to be led now?

These times call for stronger leadership accountability, not simply stronger leadership. It is no longer sufficient to define effective leaders as those who mobilize groups of people to achieve extraordinary results. We know only too well—as the events of the past year have so poignantly demonstrated—that leaders can mobilize people to pursue the wrong ends, do the wrong things, and produce the wrong results.

The “reset” reality of our times calls for a new model of principled leaders—leaders who hold themselves accountable not only for short-term results, but also for the long-term success of their organizations. Additionally, leaders should be mindful of the long-term impacts their organizations will have on the economy, society, and the environment. To do this, principled leaders need to take on four additional dimensions of leadership accountability that match the challenges we face today.

### **Focus on Ethics**

Leaders must foster a work culture where they and every one of their employees examine the decisions that they make and actions that they take against a code of ethics and guiding values; where integrity in decision-making is an explicit measure of success.

### **Focus on Stakeholders**

Leaders must hold themselves accountable to all stakeholder groups—employees, customers, suppliers, and the communities in which they operate. This doesn’t mean solely owners and shareholders of for-profit companies, but to board members of nonprofit organizations as well.

### **Focus on Diversity and Inclusion**

Leaders must build inclusive organizations, where equity is a core value and the power of diversity is harnessed to create greater social and economic value.

### **Focus on Sustainability**

Leaders must hold themselves accountable for the long-term impact of their organizations on the societies that give them license to operate, and the environment from which they draw critical resources.

With the economic pressures facing most organizations today, it is tempting to hold these facets of leadership as desirable, but not essential. Some may even question whether they are attainable. Yet, we are living every day with the unprecedented costs of unprincipled leadership.

As we “reset” our model of leadership, we can learn from examples of principled leaders who have positioned their companies to ensure long-term profitability while also addressing pressing social and environmental issues.

- Indra Nooyi, the new CEO of PepsiCo, led the company to redefine its strategic goals as “Performance with Purpose,” to achieve business and financial success. Pepsi has integrated the goals of human and environmental sustainability into its business strategy. With a focus on human sustainability, Pepsi is changing its portfolio of products to provide healthier snacks and drinks to help combat the epidemic of obesity. With the

focus on environmental sustainability, Pepsi has set rigorous targets for reducing its consumption of water, fuel, and electricity, thus reducing its usage by 3–9% across its three major divisions in a single year.

- Anne Mulcahy, chairman and former CEO of Xerox, incorporated the goals of corporate citizenship and sustainability into core strategies and practices as she led the organization through one of the most remarkable turnarounds in recent business history. Xerox has long been a leader on diversity and inclusion and is widely respected for “walking the talk” with respect to its code of ethics. Xerox also has been on the forefront of addressing environmental sustainability, promoting double-sided printing to reduce paper use, adhering to rigorous energy use standards in the design of its equipment, and pursuing innovative remanufacturing processes to reduce waste. Since 2002, Xerox has reduced its greenhouse gas emissions by 18% and has worked with its suppliers to significantly reduce the environmental impact of paper production.
- Jeffery Immelt, CEO of General Electric, has launched two strategic initiatives aimed at positioning GE as a leader in the “reset” economy. Through its Ecoimagination initiative, GE has invested approximately \$3 billion a year in research on clean energy and clean water technologies and has grown a \$17 billion business selling products that help solve environmental problems. This year, GE launched its Healthymagination initiative, committing to invest \$1 billion a year to develop technologies that “help doctors and hospitals deliver better health care to more people at a lower cost.”

The tenets of principled leadership give us a “reset” model for repositioning our organizations successfully in these unprecedented times. As business school leaders, we should be educating our students to be principled leaders and ensure that all of the dimensions of accountability are incorporated into our curricula.