



## WHARTON LEADERSHIP DIGEST

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### **LOYALTY: Virtue or Vice?**

**By John Baldoni**

The drama of President George W. Bush's long-running support for his embattled Secretary of Defense— which culminated last month in Donald Rumsfeld's resignation — was a parable on the dangers of loyalty writ large.

On the surface, Bush's support for a member of his own cabinet was understandable; Rumsfeld was the president's pick. On a more symbolic level, however, the president's unwavering support came to represent a governance style that valued consistency over consensus and, some would say, loyalty over good leadership.

Loyalty is usually a cherished attribute. Leaders who demonstrate this quality toward their followers earn respect. "Semper fi" — "always faithful" — is the Marine Corps motto, and best-loved military heroes like Chesty Puller and Dwight Eisenhower were known for their fierce commitment to the men they led.

We like to see our leaders stick by their people; it is a manifestation of character. But when leaders who benefit from loyalty harm their organization more than they help it, then such loyalty loses virtue and becomes its opposite, vice.

*Loyalty as a Shield:* Hank Greenberg ran the company he built from the ground up, AIG, like a personal fiefdom. As *Fortune* and the *Wall Street Journal* reported, he surrounded himself with executives and directors who were loyal to him, often to the point of being derelict in their corporate responsibilities. Greenberg rewarded their loyalty with lavish perks; when anyone questioned his decisions or left his employ, he berated them. When AIG came under scrutiny for financial irregularities, Greenberg and his allies were forced out, chiefly because a few directors acted on a different form of loyalty — to the shareholders. Greenberg used loyalty to shield himself from critical opinion. His followers, in turn, were only loyal to their own proximity to power and resources.

*Loyalty as a Bargaining Tool:* Senior executives are fond of asking their people to "suck it up" by forgoing raises or taking pay cuts when times are bad; they play on the employee's loyalty to the institution. However, when good times return, the same employees may be rewarded only with a pat on the back and a "nice job," while the senior executives rake in huge pay packages. Employees would naturally feel cheated. In such instances loyalty is a one-way street, serving only the folks at the top.

*Loyalty as an Instrument of Personal Gain:* Richard “Dick” Grasso devoted his life to the New York Stock Exchange, starting out as a young floor clerk and rising to become chairman and CEO. He earned acclaim for working hard to reopen the Exchange in the wake of September 11. He demonstrated loyalty to the institution and its employees – but there is another side to his story. Grasso packed the board of directors with friends who awarded him a huge compensation package – totaling nearly \$140 million – that was not disclosed publicly until his retirement. The Exchange as an institution was betrayed by its senior-most leader, who milked it for personal gain. Grasso was forced by the courts to surrender some of his windfall but he fought hard to retain as much as he could, and in the process, proved his highest loyalty was to himself and not the people or the institution for whom he had worked a lifetime.

### **Loyalty for the Common Good**

Loyalty should not be about a leader exploiting his or her power over others. In its most ethical and effective manifestation, loyalty is the fulfillment of mutual need. Professional associations are a good demonstration of loyalty’s positive power. Members meet regularly to share ideas, best practices, and one another’s good company. Sometimes they refer business to one another, but more often they pool good ideas, sharing what they do best with others who can put it to good use. Skeptics might fault them for “giving away business,” but this view is a limited one. Professionals in a network are teaching others in exchange for learning themselves. Their loyalty extends to the improvement of their profession – a larger collective goal that will further the individual goals of their own business.

Loyalty is a force for good when it serves the organization rather than a single individual. For leaders to embody true loyalty, they need to put the needs of their organization ahead of personal gain. And leaders and followers alike must be on the lookout for moments when loyalty is manipulated to serve narrow ends.

Harnessing the power of loyalty for organizational betterment is a tough but noble challenge. A section from the Cadet’s Prayer, recited at the U.S. Military Academy at West Point, serves as a reminder:

*“Make us to choose the harder right instead of the easier wrong, and never to be content with a half truth when the whole truth can be won. Endow us with courage that is born of loyalty to all that is noble and worthy, that scorns to compromise with vice and injustice and knows no fear when truth and right are in jeopardy.”*

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