

Why Accounting Firms Need Compassionate Leaders

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Abstract

Traditional organization development models that may have made sense in the industrial age are giving way to new intervention methods and models in an information/knowledge economy defined by chaos, instability, flux, globalization, accelerating change, and the need to adapt quickly. One leadership trait that is important today is compassion, which translates into concern and empathy for employees, customers, and society. Accounting firms should accept the paradigm shift in organization development and seek out leaders that can create collaborative learning communities based on compassion and benevolence.

Keywords: leadership, business ethics, organization development, compassion, accounting.

Introduction

Two terms you almost never see paired are compassion and leadership. We tend to think of effective leaders as being “tough, strong, decisive, hard-nosed, ultra-rational and results-driven” (Cropper, 2009). Yellen, CEO of a major property restoration firm, states:

In fact, the typical portrayal of a business leader is someone who lacks compassion and only cares about the bottom line. But these stereotypes leave out one key fact: When leaders forget about the human element, they’re holding back their companies and limiting the success of others (Yellen, 2015).

That is starting to change in the knowledge-intensive economy. Bremer (2015) describes the havoc wreaked by the wrong kind of leader in an accounting firm: A manager in a CPA firm who has great success with clients and in meeting her billable hours quota suddenly has a new senior manager to whom she reports. He is a highly critical person with a micromanager mentality. This new boss creates anxiety using high control and the manager begins doubting herself. She finds herself looking over her shoulder, hyper-vigilant and double-checking her work. Afraid to bill for extra work, her hours go down and her relationships with clients are weakened. She begins a

confidential job search and the firm is surprised when she is leaving. They don't know what happened that caused them to lose a great accountant.

Furthermore, the accounting industry has been complicit in many of the scandals that have rocked the corporate world. Toshiba recently joined a long list of firms responsible for corporate accounting/financial scandals that includes BCCI, Enron, Olympus, Tyco International, Lehman Brothers, Royal Bank of Scotland, and Tesco (Farrell, 2015). The SEC filed 99 accounting-fraud investigations (a 46% increase from the previous year) in the fiscal year that ended September 30, 2014. In 2015, they started more than 100 investigations (Eaglesham & Rapoport, 2015). One reason given for all the accounting scandals is the pressure to achieve financial targets:

Bonuses and share options are often linked to hitting particular targets and these pressures may entice executives to engage in creative accounting. Companies can also manage their operations by delaying investments or selling assets to reach certain goals. As long as there are market pressures, we can expect some firms to resort to creative accounting to shore up their performance (Farrell, 2015).

Clearly, accounting firms need new kinds of leaders, ethical and compassionate, men and women, with a long-term perspective, and concern for the reputation of the firm and for the hiring of the best people. The wrong kind of leader can change the culture of a firm so that trust, compassion, respect and cooperation are replaced with fear and mistrust (Bremer, 2015). The Deloitte Millennial Survey (Deloitte, 2016) involved 7,700 Millennials from 29 countries and provides an insight into the job market. The study showed that many Millennials are not happy with their current jobs and a whopping 66% of them expect to leave their organizations by 2020. Another key finding of the Millennial Survey dealt with values:

So, to better understand their values, we asked Millennials, "What are the most important values a business should follow if it is to have long-term success?" They responded that businesses should put employees first, and they should have a solid foundation of trust and integrity. Customer care and high-quality, reliable products also ranked relatively high in importance. Attention to the environment and social responsibility were also mentioned by a significant number of Millennials. It's noteworthy that few (5 percent) of those answering thought profit-focused values would ensure long-term success (Deloitte, 2016).

It is clear that Millennials strongly believe that "business success is built on a foundation of long-term sustainability rather than pursuing short-term profit maximization" (Deloitte, 2016). They want firms to put people before profits. What this means is that firms that want to retain the best employees need to hire new kinds of leaders. This paper will

examine the kind of leadership that is needed for the creative economy with a workforce consisting mainly of Millennials. It is becoming more and more apparent that leaders who are arrogant, greedy, self-centered, narcissistic, take credit for the successes of others, bully employees, and use intimidation and threats to get their way are more likely to destroy an organization than help it succeed in today's economy where innovators and people willing to share knowledge are desperately needed.

Compassion – a Vital Leadership Trait

There is a vast literature on leadership that describes the traits leaders must have in order to successfully lead an organization or even a country. Key traits of successful leaders include trustworthiness, expertise/competence, and vision (Kouzes & Posner, 2010). In fact, untrustworthiness is a major cause of leadership failure (Kouzes & Posner, 2010; Nahavandi, 2003:79). The internet and globalization have changed the world so that it is no longer an industrial economy characterized by assembly lines but rather an information/knowledge economy that is driven by intelligence, data, communication, and creativity

One leadership trait that is important in the information/knowledge economy is compassion, which translates into empathy and concern for employees, customers, and society. Scalise (2007: 51) believes that “compassion is a new paradigm in which to understand economic, political, and cultural relationships.” Rynes, Bartunek, Dutton & Margolis (2012) summarize the literature dealing with caring and compassion and discuss “the enhancing effect of positive emotions and positive interrelating on creativity, motivation, emotional and physical well-being, resilience, and many types of performance.” While there is no consensus regarding the definition of compassion, scholars recognize its components: “recognizing suffering in others; understanding the common humanity of this suffering; feeling emotionally connected with the person who is suffering, tolerating difficult feelings that may arise; and acting or being motivated to help the person” (Strauss et al., 2016). It is not surprising that compassionate love has been found to be an antecedent for servant leadership (Van Dierendonck & Patterson, 2013). Seppälä (2016), author of *The Happiness Track*, maintains that “compassion is good for the bottom line, it's great for your relationships and it inspires lasting loyalty. In addition, compassion significantly boosts your health.” Moreover, “the more compassionate the workplace, the higher the performance in profitability, productivity, customer satisfaction and employee engagement” (Global Focus, 2016).

Why Corporate Leaders Should Have Compassion

In the information/knowledge economy, compassion can be the key factor that makes an organization flourish (Dutton & Workman, 2015; Dutton, Workman & Hardin, 2014;

Karakas & Sarigollu, 2013; Frost, 2003; Frost, 1999). Peter Frost was among the first scholars to demonstrate that compassion will enhance the productivity and efficiency of organizations (Frost, 1999). Frost relates a personal hospital experience where he witnessed a nurse going out of her way to comfort a patient who was “humiliated, depressed, [and] defeated.” This action was not only beneficial for the patient but helped the morale of the entire organization. As Dutton & Workman (2015) assert: “Certain types of positive experiences, like giving, receiving, or witnessing compassion, may activate positive spirals, increasing positive effects.” Held (1993: 228-229) contends that “Many enterprises would gain if they resembled families more and groups of hostile strangers less.” Indeed, compassionate leadership is correlated with a 27% reduction in sick leave and a 46% reduction in disability pensions (Williams, 2012). Baker & O’Malley (2008) posit that a management style that combines the traits of compassion, gratitude, authenticity, humility, humor, and integrity will improve employee retention and employee performance and thereby improve the bottom line. Boedker conducted a major study in Australia involving 5,600 people in 77 organizations examining the link between profitability and leadership styles. He found that compassionate leadership had the greatest influence on productivity and profitability (Business Think, 2012). According to Tischler (2007), autocratic CEOs are not effective leaders. In fact, “Farsighted, tolerant, humane and practical CEOs returned 758% over 10 years, versus 128% for the S&P 500” (Tischler, 2007). Firms that practice conscious capitalism and are built on a foundation of compassion and concern for others outperformed the S&P 500 firms by 14 times (Lewis, 2014).

The healthcare industry has recently started focusing on compassion. de Zulueta (2016) reviewed the healthcare literature and asserts that “there is a deep concern that modern healthcare has lost its moral compass and is struggling to provide safe, timely, and compassionate care to its citizens.” Dignity Health, headed by Lloyd H. Dean, is one of the country’s five largest healthcare providers and believes in compassionate health care. Dean asserts that “Where there’s kindness and compassion, the probability and quickness of healing rises exponentially.” Dean feels that the principle of compassion should be a core value of all kinds of businesses. UCLA’s health system also improved its reputation immensely after focusing on compassion. Indeed, positive responses to the question, “Would you refer us to a friend?” shot up from the 38th percentile to the 99th percentile (Asghar, 2014). Compassion can improve caregiver and patient satisfaction and increase a hospital’s bottom line. According to a Schwartz Center for Compassionate Healthcare Whitepaper:

Organizations that place a high priority on delivering compassionate care benefit from lower staff turnover, higher retention, recruitment of more highly qualified staff, greater patient loyalty and reduced costs from

shorter lengths of stay, lower rates of rehospitalization, better health outcomes, and fewer costly procedures (Schwartz Center, 2015).

Ton (2014) examined several retailing firms and found that successful firms thrived by paying fair wages and respecting employees. Indeed, one retailer that took such a people-centered management approach achieved an annual turnover of 4% of employees, which is virtually unheard of for a retailer. Seppälä (2013) posits that managers often make the blunder of thinking that placing pressure on employees is the best way to get them to maximize performance. Actually, this approach often boomerangs and increases stress, which in turn has an adverse effect on health and performance. Research shows that many employees will look for another job because of stress and that they will remain loyal to their firm if they experience fairness and altruism in the workplace.

Reinhard Mohn, CEO of Bertelsmann, created a culture at his firm that stresses fairness and compassion for all of humankind. With this approach, he was able to transform the company into a multimedia giant (Mohn, 2009).

Conclusion

Compassion is an important virtue in most of the world's religions and is often a core value of most belief systems (Strauss, et al., 2016). Accounting firms should not use the machine paradigm which treats people as "automated cogs carrying out rigidly prescribed activities, creating a system that is intrinsically dehumanizing and paradoxically inefficient" (de Zulueta, 2016). Thinking of people as a factor of production similar to a machine has much to do with Taylor's (1911) outdated theory of scientific management which is over 100 years old and makes no sense in the knowledge-intensive economy (de Zulueta, 2016). Economic theory today defines four factors of production: land, labor, capital, and entrepreneurship. The entrepreneur combines the other factors of production in an innovative way to make a profit. In the knowledge economy, a successful entrepreneur understands that no one person can solve all problems. President Woodrow Wilson once said: "I not only use all the brains that I have, but all that I can borrow." Great leaders are those "who show humility by acknowledging that they do not have all the answers, by being true to themselves, and by their interpersonal accepting attitude create a working environment where followers feel safe and trusted (Van Dierendonck, 2011).

Accounting firms have to be in the forefront of creating a compassionate workplace. This requires compassionate leaders. One problem this will solve is that of employee disengagement which is currently at 70% in the United States (Harter & Adkins, 2015). Compassion is contagious (as is bullying) and is needed when dealing with colleagues, customers/clients, competitors, employees, and society. This is especially important in today's creative economy where "Survey after survey shows that millennials want to

work for companies that place a premium on employee welfare, offer flexible scheduling and, above all, bestow a sense of purpose” (Wortham, 2016).

Karakas (2009) makes the important point that traditional organization development models are giving way to new intervention methods and models in an age of uncertainty, complexity, globalization, and accelerating change.” Karakas (2010) has described numerous management changes that are taking place such as: a shift “from fear-based approaches to trust and empowerment;” “from an economic focus to a balance of profits, quality of life, spirituality and social responsibility concerns;” “from self-centeredness to interconnectedness;” “from self-centeredness to interconnectedness;” and a “change from a materialistic to a spiritual orientation.” Accounting firms that are going to thrive will be those that accept these paradigm shifts and seek out leaders who lead with compassion and benevolence.

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