Ethical Leadership: Its Issues and Impacts in Organization.

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Abstract

Due to its roles in organization, Ethics has received extensive attention innumerable past researches. However, there is a limited study in examining Ethics and how it influences work behavior in organization. This paper tries to examine the concept of ethical leadership, the characteristics of an ethical leader, ethical leadership and its impact on organization, Model of Ethical Leadership, why and how to practice and how organizations can develop leaders that are not only sound in character but sound in action. These findings are discussed in terms of their theoretical contributions, practical implications and future research recommendations. The present study is conducted based on secondary methods. In general, ethics are common moral standards that set the right and wrong for individual behavior in a certain situation. Therefore, ethics should guide people on how to act honorably and morally. The study concludes with some suggestions from the literature.

Keywords: Ethical Leadership, Ethics, Management, Organization, Trust, Commitment.

1. Introduction

Ethical leadership is knowing your core values and having the courage to live them in all parts of your life in service of the common. Good Leaders play a prominent role in promoting ethics in organization. In organizational settings, an individual’s ethical decision making is largely determined by the expectation of others and those expectations are established, nurtured, and enforced by the organization’s leadership. “Leaders who are perceived as ethically positive influence productive employee work behavior and negatively influence counterproductive work behavior” (Mayer et al, 2009) as cited in Brown and Mitchell (2010: 583). Failure to present ethical leadership and to set us systems supporting ethical conduces will leave managers as much responsible for the outcomes, as those conducting and benefitting from corporate misdeeds (Paine 1994). Although it is accepted that a leader’s role in promoting ethics is highly important, there are still different understandings regarding the terms ‘ethical leaders’ and ethical leadership’. People often assume that ethical leaders are simply good leaders with integrity and other good characters (Trevino, Hartman and Brown, 2000). Through their leadership, managers influence the behavior of their employees directly but also shape the norms and expectations of appropriate conduct that become instilled in the organization’s ethical climate.

2. Literature review

Brown (2007) points out that research on ethics and leadership indicates that leadership, whether ethical or not ethical, is influenced by many factors and is not simply the result of being the “right” character on a person of integrity. Typically, ethical leadership has been identified and described using a normative approach; that is about defined by how individuals “ought” to behave in the workplace (Brown 2007). Recently, some theorists and practitioners have applied descriptive approaches. These approaches attempt
to understand how people actually perceive things and also to investigate the background and consequences of those perception (Brown 2007).

Butcher (1997) pointed out that, "ethical business leadership requires not only investing in the small trees and experimental hybrids that won't yield a thing that in this quarter or the next, but also caring for the soil that allows us to produce such a harvest in the first place" (pp. 5-6). Thus, ethical leaders must create the right conditions and organizational culture (i.e., an "organizational soil") to foster the moral development of followers.

Erickson (1964) argued that being authentic to oneself in how one thinks and behaves is another aspect of identity and means that a person will work toward making his or her moral decisions consistent with his/her moral identity. This argument implies that an individual with a strong moral identity will strive to maintain a higher level of consistency and balance between his/her moral self identity and his/her moral decision.

May et al (2004) said that, ethical leaders are more likely to provide opportunities to understand the impact that an employee has in his/her position and in the organization overall, such as participation in decision making and work design. Such leaders encourage the full engagement of the self at work.

Freeman and Stewart (2006) describe an ethical leader as person with “right values” and “strong character” that set examples for others and withstand temptations. Ethical leaders are stakeholders in organizations, striving to achieve the purpose, vision and value of his realm without compromising self-interest. Ethical leaders embody the purpose, vision, and values of the organization and of the constituents, within an understanding of ethical ideals. They connect the goals of the organization with that of the internal employees and external stakeholders.

3. The Framework of Ethical Leadership

Leadership is defined as a process whereby an individual influences a group of individuals to achieve a common goal (Northouse, 2007). Theoretically, there are three basic ways to explain how people become leaders: the trait leadership theory, the great event theory and the process leadership theory (Bass, 1990). According to Burns (1978), the leadership process occurs in one of two ways: either transformational or transactional. Transformational leadership is concerned with developing a vision that informs and expresses the organization’s mission and lays the foundation for the organizations strategies, policies and procedures. The transformation leader uses strategies and techniques to empower the followers, enhance their self-efficacy and change their values, norms and attitudes which are consistent with the leaders vision. Ethical leadership is associated with a plethora of ‘moral’ qualities such as honesty, integrity, reliability, modesty, trustworthiness, respect, conscientiousness and fairness. Brown, Trevino and Harrison (2005:120) has defined ethical leadership as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships and the promotion of such conduct to followers through two-way communication, reinforcement and decision-making”.

In conceptualizing of ethical leadership, Trevino, Hartman and Brown (2000) present a matrix comprising unethical leadership (weak moral person, weak moral manager), hypocritical leadership (weak moral person, strong moral manager), ethical leader (strong moral person, strong moral manager) and ethically silent or neutral leadership (weak/strong moral person, weak moral manager). In a similar fashion, Trevino and Brown (2004) propose an executive must be perceived as both a “moral person” and a “moral manager to have a reputation of ethical leadership.” A “moral person” is related to good character; the leader is honest and trustworthy, show concern for employee welfare and is seen as approachable. Whereas, a “moral manager” is one who leads others on the ethical dimension, allow employee to know what is expected and holds them accountable. Moral managers set ethical standards, communicate ethics messages, use the position of leadership to promote ethical conduct at work and use rewards and punishments to guide ethical behavior in the organization. Trevino & Brown (2004) expand the Executive Ethical Leadership Reputation by citing examples of leaders in each of the reputation matrix (see Figure I). Combining the
“moral person” and “moral manager” dimension to create a two-by-two matrix. A leader who is strong on both dimensions is perceived to be an ethical leader.

Figure I: Executive Ethical Leadership Reputation

An ethical leader clearly led his organization on ethics and values. People knew what they could expect of him and they knew what he expected of them from an ethics perspective. Examples of ethical leaders are Arthur Andersen, James Burke, CEO of Johnson & Johnson during the early 1980s and Bill George (a retired CEO of Medtronic). An unethical leader is perceived to be neither a moral person nor a moral manager. The research identified Al Dunlap of Sunbeam as an unethical leader. Others are Dennis Kozlowski from Tyco, Bernie Ebbers from WorldCom and Richard Scrushy from Health-South. Leaders who communicate a strong ethical values (moral managers) but who are not perceived to be ethical themselves (they are not moral persons) were tagged hypocritical leaders. According to the study Jim Bakker, the founder of PTL Ministries is an example of a hypocritical leader. Also, Michael Sears, fired from Boeing for offering a job to an Air Force procurement specialist while overseeing negotiations with Boeing represents a more recent example of a hypocritical leader. The ethically silent leader is not perceived to be unethical but is seen as focusing intently on the bottom line without setting complementary ethical goals. Leaders in this category are likely to be perceived by employee in a negative way. Silence means that the top executive really doesn’t care on how business goals are met and so employees act on such messages. Sandy Weill, CEO of Citigroup, may be a good example of ethically silent leader. Thus, ethical leaders can effectively achieved greater performance within organizations by exhibiting qualities that will influence employee to work harder. This will at the long run assist organizations to achieve their goals and objectives optimally.

4. Characteristics of an Ethical Leader

A good leader has an idea of goodness and respective goals and is willing to hold on to these goals even in difficult times. A good leader is authentic, cares strongly about certain ideas that deserve robust concern and is a person of prudence. In a study conducted on the understanding of executive ethical leadership (Trevino, Brown & Hartman, 2003) ethical leaders are thought to be receptive and open, possess traditional leadership traits such as integrity, honesty and trustworthiness. Ethical leadership includes transactional leader behaviors such as setting ethical standards and holding followers accountable for ethical conduct. Resick, Hanges, Dickson & Mitchelson (2006) identified six key attributes that characterized ethical leadership which includes character and integrity, ethical awareness, community/people-orientation, motivating, encouraging, empowering and managing ethical accountability. Besides, the characteristics of ethical leadership as identified by Freeman & Stewart (2006) are: (1) the articulation and embodiment of the purpose and values of the organization by the leader, (2) the leader focus on organizational success rather than on personal ego, (3) the leader find the best people and develop them, (4) he/she create a living conversation about ethics, values and the creation of value for stakeholders, (5) take a charitable understanding of others” values, (6) make tough calls while being imaginative and (7) create stakeholder support and societal legitimacy. In a similar vein, O’Connell & Bligh (2009) identified the following nine characteristics of an ethical leader from a synthesis analysis of past researches: (1) Uses an ethical lens, (2) Makes ethical decisions, (3) Considers the long-term implications of business decisions, (4) Considers others well-being when making decisions and treats others fairly, (5) Acts ethically or role models ethical behavior, (6) Communicates the importance of ethics, (7) Understands themselves and those with whom they work, (8) Holds others accountable for acting ethically and (9) Offers training and support for employees on how to act ethically in the workplace. Nevertheless, these unique qualities that characterized ethical leaders make them different from other leaders of corporate organisations. Ethical leader are those leaders that are sensitive to the interest of all employees without fear or favor.

5. Impact of Ethical Leadership on Organisation:
Employees are the most important assets in organisations, which without, the goals and objectives may not be attained. Several studies have been conducted on the roles that ethical leaders can play in achieving increase employee job performance. A study by Toor & Ofori (2009) revealed that ethical leadership may play a mediating role in the relationship between organizational culture and employee outcomes. The study shows that ethical leadership is more likely to bring about leader’s effectiveness, willingness of employees to put in extra efforts, employees job satisfaction and an atmosphere for ethical leadership to flourish; which will ultimately leads to increase on organization.

Ethical leadership is associated with positive influence on employee performance (Resick et al, 2011), intrinsic motivation (Piccolo, et al. 2010), job responses (Ruiz, Ruiz & Martinez, 2011) and willingness of employee to reports problems (Brown et al, 2005). Piccolo et al. (2010) suggest that leaders with strong ethical commitments can have impact on “task significance” and “autonomy” of the Job Characteristic model; and the willingness of employee to put extra effort on task performance. If followers perceived top manager’s good moral image, ethics may be viewed as an important issue within the organization, and this perception may be a translated into a strong appreciation of top management by employees within an organization (Ruiz, Ruiz, & Martinez, 2011). In organisations where leadership is perceived to be unethical is manifested in the failure of the leader to follow rules, failing to take responsibility for unethical behaviors and failing to avoid even the appearance of impropriety (O’Connell & Bligh, 2009). Two important variables are crucial to the issue of ethical leadership in improving employee job performance; trust and employee commitment. As evident in the assertion of some researchers (Hosmer, 1994; Jones, 1995) cited in Berrone et al, (2007) that good ethics is good for business because it generates positive externalities like trust and commitment to all stakeholders, which in turn assures long-term performance of firms.

6. Trust:

Trust is a sacred and emotional relationship between people; the expectation of faith that individuals have on the organisation and leadership (Darcy, 2010). Trust is the foundation for constructive conflict, goal commitment, personal accountability and achieving collective goals (Lencioni, 2005 cited in Collins, 2010). Trust is a positive expectation that another will not act opportunistically (Robbins, Judge, Millet & Water-Marsh, 2008). This is the expectation of others in words, actions or decisions. According to Jones & George (1998) cited in Zhu, May & Avolio (2004) there are two types of trust; conditional and unconditional trust. Conditional trust is a situation whereby both parties are willing to transact with each other as long as each behaves appropriately and uses a similar interpretive scheme to define situation. Whereas conditional trust is characterized by the shared values that structure the social situation and become the primary vehicle through which individuals experience trust. Theorists have also identified three types of trust in organisational relationship; deterrence based, knowledge based and identification based (Robbins, et al., 2008). Deterrence trust is based on fear of reprisal if the trust is violated. Individual act in accordance with what they say because of the consequence. Knowledge trust is based on the behavioral predictability that comes from a history of interaction. The identification based trust is on mutual understanding of each other’s intentions and appreciation of the other’s wants and desires. Trust is an important issue in organisations that has effect on performance and if broken is likely to has serious adverse effect. Employee trust in leaders will likely result to increase in employee compliance with organizational rules and laws, facilitate the implementation of organizational change and improve employee contributions in terms of performance, intent to remain and civic virtue behaviour (Robbinson 1996; Van Zyl & Lazeney, 2002) cited in Ponnu & Tennakoon (2009). Employees are unlikely to follow leaders that are perceived to be dishonest and may likely take advantage of them (Robbins, et al, 2008). Covey (1998) encourages companies to examine the impact of trust on the bottom line in addition to profits, earnings-per-share, and other figures traditionally thought to determine the success of the company. Low levels of trust can result in organizational decay as relationships deteriorate political strife, infighting, and general inefficiency result; organizations with little or not trust have no basis for future success. Corporate leaders cannot separate the issue of trust from their business dealings. As Fulmer (2004) noted, ethics, values and trust are important
issues to executives attempting to recover from a substantial downturn in the national and global economies.

7. Organizational Commitment:

Commitment is simply defined as loyalty and attachment of an individual or group to the organization. Organizational commitment is defined as a state in which an employee identifies with a particular organization and its goals and wishes to maintain membership in the organization. Commitment had been used by organizations to predict desired employee behavior in the areas of performance, absenteeism and emotional attachment. Theoretically, organizational commitment has three components (Meyer & Allen, 1991): affective, continuance and normative. Affective commitment is referred to as an employee’s emotional attachment to the organization. Continuance commitment is the perceived economic value of remaining with an organization compared to leaving it. Normative commitment is an obligation to remain with an organization for moral or ethical reasons. However, studies have shown relationship between ethical leadership behaviour and employee’s organizational commitment. Some of these studies revealed that high levels of perceived ethical leadership behavior are associated with higher levels of employee’s organizational commitment (Ponnu & Tennakoon, 2009; Upadhyay & Singh, 2010). In a related fashion, there was a positive relationship on the impact of leader’s ethical behaviour on the employee’s level of commitment to the organisation (Mize, 2000 cited in Zhu, May & Avolio, 2004). Employee commitment is also linked to improved quality of products, enhanced customer loyalty and lower costs due to a decrease in employee turnover. Maignan (1997) cited in Ferrell & Ferrell (1999) found a positive relationship between corporate citizenship (defined as economic, legal, ethical, and discretionary activities) and employee commitment to the firm. Employee commitment to the organization decreases, product quality drops, customers leave, and employee turnover skyrockets as ethical compliance decreases. It is expected that leaders who exhibit ethical behaviour would be more likely to consider the needs and right of employees and treat them fairly.

8. Developing Ethical Leaders

Leadership development is an un-ending process of self-study, education, training, and experience (Jago, 1982). Developing leaders in organization is a long-life process; and ethical leadership programmes is design to equip employee with the rudiments for effective management. Ethics does not apply to only those at the top; all individuals no matter the level in the organization should abide by ethical rule. Thus, every organization should put mechanism in place in order to develop future leaders for long term survival of businesses. The focus of leadership development should be on producing leaders in the middle who have personal ethical competence, who are good models for those around them, and who can empower others to get the work done in ways that promote harmony and maintain good relationships. This calls for leadership development specifically focused on training ethical leaders throughout the organization (Perreault, 2010).

A fundamental focal point in the literature on the development of leaders is that it can be teach and must be taught. Ethically sensitive leaders are needed in time of financial crises, global injustice, climatic change, cultural insensitivity, employee racial and sexual discrimination and the period of corporate financial irregularities. Prince II, Tumlin & Connaughton (2009) identify the followings as critical elements of ethical leadership development:

1. Knowledge of leadership and ethics that provides a conceptual framework for understanding the practice of ethical leadership when one is engaged in leading or following others.
2. Opportunities to practice leadership roles in situations that require collective action where the learner has some responsibility for outcomes that matter to others.
3. Opportunities to study, observe and interact with leaders, especially leaders who have demonstrated moral courage
4. Formal and informal assessment of the efforts of those learning to lead ethically
5. Feedback of the results to the learner along with reflections by the learner on the experience.
6. Strengthening a personal ethic that embodies foundational, core values such as integrity, service to others, and loyalty.

To develop ethical leaders, ethics codes need to be clear; proper guidelines to be in place to ensure that all employees understand what are expected of them. Also, organizations need to demonstrate ethical leadership within the culture of hiring, training and development; and to promote and reward those employee who will embrace the ethical standards.

9. The 4-V Model of Ethical Leadership

The 4-V Model of Ethical Leadership is a framework that aligns the internal (beliefs and values) with the external (behaviors and actions) for the purpose of advancing the common good. The model was created by Center founder Dr. Bill Grace based on his formal leadership research and personal passions around faith and ethics.

Values. Ethical leadership begins with an understanding of and commitment to our individual core values.

- Vision. Vision is the ability to frame our actions – particularly in service to others – within a real picture of what ought to be.
- Voice. Claiming our voice is the process of articulating our vision to others in an authentic and convincing way that animates and motivates them to action.
- Virtue. Understanding that we become what we practice, we foster virtue by practicing virtuous behavior – striving to do what is right and good.

10. Why practice ethical leadership?

Most people would probably agree that leaders ought to be ethical (although there might be a lot of disagreement about what that means) but there are a number of good reasons why ethical leadership makes sense.

- Ethical leadership models ethical behavior to the organization and the community. Leaders are role models. If you want your organization or initiative – and those who work in it – to behave ethically, then it’s up to you to model ethical behavior.
- Ethical leadership builds trust. Leadership – except leadership gained and maintained through the use of force and intimidation – is based on trust.
- Ethical leadership brings credibility and respect, both for you and the organization. If you’ve established yourself as an ethical leader, individuals and groups within and outside the organization, will respect you and your organization for your integrity.
- Ethical leadership can lead to collaboration. Other organizations will be much more willing to collaborate with you if they know that you’ll always deal with them ethically.
- Ethical leadership creates a good climate within the organization. If everyone in the organization knows that power will be shared and not abused, that they’ll be dealt with respectfully and straightforwardly, that they’ll have the power to do their jobs.
- Ethical leadership is simply the right way to go. Everyone has an obligation to themselves, to their organization, to the community and to society to develop a coherent ethical system that seeks to make the world a better place.

11. Conclusions
Leadership is a privilege and a responsibility that demands a good deal from those who practice it, whether formally or informally. Ethical issue is a worldwide phenomenon. It is an important issue to corporate organization; and corporate leaders must take proactive measures. Ethical leaders are perceived as having a broad ethical awareness and concern for all stakeholders which includes employee. Therefore, leaders must create an ethically friendly work environment for all employees, communicate ethical issues, serve as role models and put mechanism in place for the development of responsible employees. Thus, the following recommendations from the empirical literatures are guidance for corporate leaders in the management of ethical issues (Collins, 2010; Trevino & Brown, 2004, Upadhyay & Singh, 2010):

- The CEO must be the chief ethic officer of his/her organization. This is necessary in order to personally assess areas for ethical risks such as guidance on ethical issues, monitoring the organization’s adherence to ethical codes, monitoring organization’s ethics policy and overseeing ethics training programs.
- He/she must ensure a strong ethical culture (a total quality management of ethics) within the workplace. The values and norms of the workplace should be in accordance with ethical issues with systematic approach of total quality management of ethics. The total quality management approach to ethics can help to determine the root cause of ethical behavior and be managed appropriately.
- Organizations should strive to hire ethical people. Organizations should focus on ethical skills along with the technical skills in the recruitment screening process. Information on potential employee ethical behavior can be obtained from resumes, reference checks, background checks and integrity test.
- Organizations should ensure that all employees participate in ethics training programs. This will serve as an opportunity for employees to learn and evaluate the impact of ethics on activities and organizational performance.
- Corporate leaders should reward ethical conduct and discipline unethical conducts. Leaders should make decisions that promote and compensate employees who are not only good on what they do but also have sound relationship and have developed reputation with customers and co-workers. The 360 degree performance management system evaluation can be used for ethical behavior decisions.
- To be ethical leaders, leaders must transcend their self-interest and focus on what is good for their group or organization. Ethical leaders value each employee and respect their right to be treated with dignity rather than just as a means to an organizational end. Finally, and perhaps most important, an ethical leader never stops reexamining his own ethical assumptions and what it means to be an ethical leader. Like so many other important tasks, maintaining ethical leadership is ongoing; like only a few others, it can last a lifetime.

Reference:


