

Ethics and Leadership

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Ethics and leadership can be an important contribution to an organization and society. Without ethics in leadership, organizations may take on a role that could negatively impact the entire world. Ethics can be used to provide organizational leaders with guidelines to aid them in their career roles as to promote them as a good role model to the employees that serve under them. Several ethical theories and principles exist that can be used as tools or guides for ethical leaders, however, not every theory is good for every situation. People have personal moral standards and values that drive their decisions.

Ethics plays a large part in all aspects of life which means that it also plays a part in business and organizational attitudes. It doesn't always mean that the behavior that is displayed is ethical. Unethical behavior is just as common as ethical behavior. Many theories exist that attempt to explain the different behaviors and how they coexist in the organizational world. Leadership involves many challenges that prompt a leader to make choices that will affect many people within an organization. Based on these decisions, users may feel ethical or non-ethical implications that can cause organizational challenges to arise involving social issues outside of the company.

Altekruse, Engels, and Freeman (2004) stated that "ethics can be viewed as a way of understanding and examining the moral or the good life" (Altekruse, Engels, & Freeman, 2004, p. 164). Most people have a different definition for the term "ethics". Some people believe it is related to moral reasoning and is developed at a young age based on values taught to them. "Ethic" is defined as "the discipline dealing with what is good and bad and with moral duty and obligation" (Ethic, 2011). Maxwell wrote that ethics can be taught to others if the method of that instruction is tailored for those being taught (Maxwell, 2007). If a person understands his or herself, they can become more aware of their moral behavior which can in turn, make them more aware of the feelings of others when they are acting out their ethical values and principles (Kakabadse & Rozuel, 2010). Studies have shown that intelligence is a factor that affects ethical conduct and successful business, but the wisdom-related literature shows that virtue is also a requirement to prove that ethical businesses are more successful (McKenna, 2011). Once a person understands ethics, they have gained the wisdom of moral philosophy (Altekruse et al., 2004). An ethical compass is considered an outcome of a person with ethical values combining global and culture-free competence, and an effectiveness in integrity, honest, trustworthiness, and virtue commitment (Jones & Millar, 2010). This "compass" can allow a person to build a moral perspective which will give them the means to understand the problems to aid them in building a code of ethics. Some feel that a code of ethics can be used as an example guide to aid employees in some ethical situations they may face within an organization, though some researchers feel a code of ethics is not a useful tool because it does not include guidance in concrete situations (Altekruse et al., 2004).

Practicing professionals need a well-developed ethical theory defined to work as a guide to provide a framework to use for the acceptability of their actions and to evaluate their moral and ethical judgments. If these professionals have a good understanding of ethical theory, they will be able to build the system needed to make sound, justifiable, ethical decisions (Altekruse et al., 2004). Before an ethical theory can be useful, the theory has to be directed toward a common set of goals. The goals are also known as ethical principles which are used to achieve a successful ethical theory. Goals included are beneficence, least harm, and a respect for autonomy and justice (Rainbow, 2002). Ethical theories include consequentialism, deontology, utilitarianism, rights, justice, casuistry, and virtue (Altekruse et al., 2004).

The beneficence principle acts as an ethical theory guide to do what is good and this principle is mainly associated with utilitarianism (Rainbow, 2002). Utilitarianism is a goal-directed theory that “emphasizes happiness or the greatest good for the greatest number” and involves the ability to predict the consequences of an action (Altekruse et al., 2004, p. 167; Rainbow, 2002).

Deontological ethics are also considered as duty-based ethics. Morality is judged by studying actions instead of the actual outputs that come from those actions. This type of ethical theory displays that the ends will never be able to justify the means (Kay, 1997). Rainbow (2002) stated that a follower of this theory will never break his promises to a friend and always adheres to the law. Some see a flaw in this theory in that it does not provide guidance in complex conflicting situations where a person would have to decide to break rules he has set out for himself without considering the welfare of others (Rainbow, 2002).

Casuistry is an analysis of moral issues that uses reasoning to lead to the development of professional opinions about the severity of specific moral obligations based on the conditions and circumstances of the action. This theory uses a bottom-up approach by discovering the ethical decision based on the situation and uses comparisons of examples of similar ethical dilemmas and the outcomes (Altekruse et al., 2004; Rainbow, 2002). Some issues that can arise with this theory are that there may be an ethical dilemma that has no similar examples to use to base an ethical decision (Rainbow, 2002). The lack of no existing laws or rules to use as a guide to make a “right” decision could lead to the use of “justification” as adequate reasoning for beliefs or actions (Altekruse et al., 2004).

The virtue ethical theory judges a person based on his character. The person’s morals, reputation, and motivation are rated as ethical or unethical. This type of theory can result in lenient or harsh judgments depending on the person making the judgment and the behavior which is being judged. Some researchers feel that this theory does not take into account a change in a person’s moral character which can present a weakness in this theory because it does not consider or may miss small unethical changes for a long time (Rainbow, 2002).

Normative business ethics are affected with what people and organizations set out to do and were developed by moral philosophy professors who used their ethical knowledge and applied it to business. Behavior or empirical business ethics is focused on how business professionals behave and how business is actually conducted within a moral behavioral view (Alzola, 2010). Some characteristics of an ethical organization include trust, effective two-way communication, integrity, honor, fairness, respect, customer focus, and results-oriented, and risk-taking (Matthews).

Other principles and theories worth mention include the justice theory which refers to social contracts that states which people and societies can live together. These social contracts are created by the principles, rules and laws that people live by (Altekruse et al., 2004). The “least harm” principle is related to the decision of which is a better choice when neither choice is beneficial (Rainbow, 2002), and the last theory is consequentialism which identifies consequences as the determining factors if an act is right or wrong (Altekruse et al., 2004).

Ethical leadership is a style that strives to motivate ethical behavior in employees by the display of the thoughts, values, attitudes and good behavior of the leaders (Martinez, Ruiz, & Ruiz, 2011). In fact, people prefer a strong, ethical leader when selecting a potential leader (Maxwell, 2007). When a leader displays morally good behavior and is also a good person, many employees will strive to emulate this behavior which will contribute to an ethical organization and a respect by the community.

There are two leadership styles that involve many ethical theories. Transformational leadership influences followers through the sharing of a collective vision and by motivating them to look past their personal interests for team and organizational benefits. This process is based on a belief that people are obligated to help others with no expectation of personal gain and has been shown to promote a positive effect on the ethical organizational climate and promotes values such as honesty, loyalty, and fairness, while emphasizing the end values of justice, equality, and human rights (Groves & LaRocca, 2011). Transactional leaders influence followers by controlling their behaviors, rewarding the approved behaviors, and improve performance by correcting problems by using corrective actions (Groves & LaRocca, 2011).

If a high-level manager promotes ethics as an important part of his work and life as well as to the organization's operations, the ethical tone is set for the entire organization. Employee attitudes are influenced even more by the actions and attitudes of top-level executives than the lower-level supervisors. This may make the employees feel that ethics is important within the entire organization and not just within departments or groups within the organization (Martinez et al., 2011). A leader with high moral values, who chooses his inner circle, will most likely select those people to have good ethical and moral standards, and the leader who displays good ethical behavior will most likely influence his followers to behave in the same way. If they see them displaying a positive ethical image, any negative ethical influence at lower levels of management will be overcome because of the high regards employees put on upper management (Martinez et al., 2011). Maxwell notes in his *Law of Connection*, that employees will show a loyalty and strong work ethic when a connection between the employees and the leader has been formed (Maxwell, 2007, p. 122).

There are rewards for organizations that choose to operate ethically which improves the organization's reputation and employee morale. It may seem that job seekers are searching for jobs with high salaries and prestige, but another factor that draws them to specific employers is a positive employer image. The ethical conduct of an organization can be expressed by corporate social responsibility, corporate social performance, or corporate citizenship which means that those factors can affect the attractiveness of the organization (Strobel, Tumasjan, & Welpe, 2010). The Ethisphere Institute, located in New York City, comprises a list of the World's Most Ethical Companies every year. These organizations are not ranked, but are all equally winners. Of the 5000 companies that were nominated or nominated themselves, one hundred and forty-five were selected for 2012. The rating system is based on what is called the "Ethics Quotient" and derived from a survey comprised of multiple-choice questions in which the answers related to codes of ethics, litigation and regulatory history, innovation investment, corporate citizenship activities, and evaluation of nomination forms are verified. Many companies are beginning to realize that good ethics are good for business and work hard to be a part of this list, which grows in size every year. The recognition they receive can be used for employee recruitment, to attract new customers. Some companies who have made the list every year since its inception in 2007 include Aflac, Inc., American Express, General Electric, International Paper, PepsiCo, Starbucks, Target, Texas Instruments, UPS, Japanese company Kao Corporation, and Netherlands companies Rabobank and Royal Philips (Smith, 2012).

Many instances of unethical behavior can affect an organization in a bad way. Some research has found that a "combination of CEO narcissism, financial incentives, shareholder expectations, subordinate acquiescence, and CEO dishonesty can be understood as constituting drivers of financial accounting misreporting (Jones & Millar, 2010, p. 6)" and when the research is connected to globalization, studies suggest that the nature and impact of ethical leadership is dependent on the institutional setting and can be expected to change greatly by country and culture (Jones & Millar, 2010). Other research has shown that unethical leaders are "oppressive, abusive, manipulative, and calculatingly undermining" (Brown & Mitchell, 2010, p. 588). Occasionally their actions can even be thought of as intentional and are the cause of many legal actions brought against employers (Brown & Mitchell, 2010). Unethical behavior can also work against an organization and promote it in a negative way which can decrease the value of the organization. Recent reports of Wal-Mart's bribery scandals in Mexico and the lack of internal controls within Groupon which caused financial misreporting sent stocks for both companies falling and caused

harsh criticism against upper management for not taking measures to prevent those problems (Agrawal, 2012; Gustin, 2012).

Wal-Mart's recent ethical problems stem from exposure by a whistleblower of paying millions dollars in bribes to Mexican officials to quickly fund building sites shows a lack of ethics beginning at the executive level because they attempted to hide their knowledge in 2005. Accusations of violations of the U.S. Foreign Corrupt Practices Act (FCPA) are now pending. This law bans American organizations from offering bribes to foreign government officials to obtain special consideration. There is an exception to the law to offer payment to hurry government actions which is part of the controversy in this issue but what is at the heart of this is the actions that Wal-Mart took to hide this information in the first place. When an organization is participating in global development in a foreign country, many of the ethical practices in the U.S. are not the same in other countries and the leader has to decide what is the right thing to do (Sachdev, 2012) (D'Innocenzio, 2012). The question that comes to mind regarding this issue is did Wal-Mart knowingly pay bribes to hurry along the process to acquire building permits to gain a competitive advantage in Mexico when other competitors are following the rules?

Groupon allegedly hid information from the public regarding their accounting systems prior to their IPO offering, but they were not required to disclose the information in the IPO prospectus. The Sarbanes-Oxley Act which was passed in response to the Enron scandal, does not require a company to have internal systems and controls in place if they are not publicly traded yet and have only registered for IPOs. The Groupon executives knew of the internal controls issue because one section of the Sarbanes-Oxley Act requires evaluation of the effectiveness of their disclosure controls and procedures, but it does not require the reporting of any findings. The company will be required to comply in 2012 according the Act though. Groupon has cautioned that future unfavorable disclosures are still possible. There were a few people who predicted the problems with Groupon prior to the reports due to the high number of acquisitions and the fast growth Groupon experienced and even more signs of potential problems were exhibited in the financial reports. On the way are new laws that are reducing disclosure reporting even more. These issues affect all investors of new organizations that are going public because any issues such as this reduce the value of the organization causing the investor to lose money instead of gain money. In this situation, it seems that ethics could play a part in protecting the investors, but that was not a factor in Groupon's decisions and because the disclosures were not required, executives seemed favor the organization and the benefit to themselves over the investor (Weil, 2012).

Ethics plays a key role in our everyday lives. Not only do our decisions affect ourselves and others in our personal lives, but also in our careers. Just as people can be influenced by good behavior, they can also be influenced by bad behavior and when they see a leader behaving unethically, they may emulate the behavior. If the employees are treated badly, their work attitudes can be affected. The employees may even take on a retaliatory behavior. This can take a toll on the employees and it makes them have difficulty maintaining good behavior (Brown & Mitchell, 2010). Organizational ethics standards as well as leadership education would benefit a company by promoting a culture and environment that is seen by the public as a fair and equitable and could also build community respect and buy-in by showing the organization cares about the community it serves.

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