



North-West University Business School

MBAD 821

LEADERSHIP

Contact 4

Theme 4: Ethical leadership

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Module information

Module code	MBAD 821
Module credits	16
Module name	Leadership
NQF	9
Qualification	MBA
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Module outcomes

- **After completion of the Leadership module, the student will:**
- Provide and integrate specialist knowledge to enable engagement with, critique current leadership research or practices, and practically apply a *comprehensive and systematic knowledge base* of key terms, principles and theories on leadership;
- Use a wide range of specialised skills in identifying, conceptualising, designing and the *use of methods, techniques and technologies of enquiry*, to address, complex and challenging real world issues appropriate to leadership and write up a *research report* ;
- Design and implement a strategy for processing and managing information, in order to conduct a comprehensive review of leading and current research, use the resources of academic and professional or occupational discourses to communicate and defend substantial ideas that are the products of research or development, and use a range of advanced and specialised skills and discourses appropriate to the field of leadership, to communicate effectively in a multi-cultural environment and with people at different levels of knowledge or expertise; and
- Have the capacity to *operate independently and take full responsibility* for his or her own work, account for leading in applying introspection and reflexivity and initiate processes and implement systems, ensuring responsible leadership through effective, efficient and ethical governance practices.

Topics

- Ethical leadership;
- Dimensions of ethical leadership;
- The importance of ethical leadership;
- Ethics, morals and values;
- Key behaviours that might help in setting the ethical “tone in the middle”;
- Creating an ethical culture;
- Key ethical issues for companies in the 21st century
- Unethical behaviour of business leaders

Study outcomes

- **After studying this study unit, you should be able to:**
 - Define ethical leadership;
 - Distinguish between the various dimensions of ethical leadership of Resick et al. (2006), Kalshoven et al. (2011) and Eisenbeiss (2012);
 - Why the heightened interest in ethical leadership nowadays?
 - Distinguish between ethics, morals and values;
 - List the key behaviours that might help in setting the ethical “tone in the middle”;
 - What does creating an ethical culture involves?
 - Discuss the key ethical issues for companies in the 21st century;
 - Explain the link between ethical leadership and employee outcomes; and
 - Provide examples of unethical behaviour of business leaders in South Africa.

Study material

- Bedi, A., Alpaslan, C. M., & Green, S. (2016). A meta-analytic review of ethical leadership outcomes and moderators. *Journal of Business Ethics*, 139(3), 517-536.
- Lemoine, G. J., Hartnell, C. A., & Leroy, H. (2019). Taking stock of moral approaches to leadership: An integrative review of ethical, authentic, and servant leadership. *Academy of Management Annals*, 13(1), 148-187.
- Naidoo, R. (2016). Ethical Leadership. In R. Naidoo. *Corporate governance: An essential guide for South African companies*. Lexis Nexis: Durban. 395-409
- Walumbwa, F. O., Hartnell, C. A., & Misati, E. (2017). Does ethical leadership enhance group learning behavior? Examining the mediating influence of group ethical conduct, justice climate, and peer justice. *Journal of Business Research*, 72, 14-23.

Introduction

Ethic and Business: Myths

- Dog eat dog.
- Survival of fittest.
- Ethics for churches, etc.
- “Nice guys come second”.
- It (fraud, etc.) is not serious.
- When in Rome ...
- The “bottom line” is all that counts.
- “Who cares about ethics – this is the hard business world”.
- Business = war – i.e. price war, take over.
- Ethics is not a “business issue”. (“Business and ethics don’t mix”).
- Unethical conduct pays – ethics vs. profit.
- Justice system failed/law in own hands.
- Ethics is a personal and individual issue – not for debate.
- “Ethics in business is relative”.

Ethical leadership dimensions: Brown et al., (2005)

- **Role modelling**
 - Normatively appropriate (e.g. ethical) behaviour
- **Treating employees fairly**
 - Communicating with openness and honesty
- **Moral person**
 - Conduct life in an ethical manner
- **Caring**
 - Has the best interests of employees in mind
- **Hold followers accountable for ethical conduct**
 - Through the use of rewards and punishment

Ethical leadership dimensions: Resick et al., (2006)

- **Character and integrity**

- Leaders' character becomes apparent in acts of humility, loyalty, virtue, generosity, and forgiveness

- **Ethical awareness**

- Demonstrate - concern for (a) the collective good of the group, (b) the impact of both means and ends, (c) the long-term and not just the short-term, and (d) the perspectives and interests of multiple stakeholders

- **Community/people-orientation**

- Focus on “serving the greater good”, which results in being people-oriented, aware of how their actions impact others (Civility = interest of others), and using their social power to serve the collective interests of the group over self-serving interests (Altruism = helping others)

- **Motivating**

- Involves an intellectual and emotional commitment between leaders and followers that makes both parties “reciprocally co-responsible in the pursuit of a common enterprise”
- Same as **Inspirational motivation** of transactional leadership

- **Encouraging and empowering, and**

- so that followers gain a sense of personal competence that allows them to be self-sufficient
- Actions are parallel to the **idealized influence** and **individualized consideration** facets of transformational leadership

- **Managing ethical accountability.**

- Setting standards and expectations of ethical conduct for followers.

Dimensions of ethical leadership of Kalshoven et al. (2011)

- **People orientation**
 - Concern for the well-being of employees
- **Fairness**
 - Holds employees responsible for the work you have control over
- **Power sharing**
 - Allows subordinates to influence critical decisions
- **Concern for stability**
 - Work in an environmentally safe / friendly manner
- **Ethical guidance**
 - Explains integrity related codes of conduct
- **Role clarification**
 - Explains expectations
- **Integrity**
 - Can be trusted to do the things they say

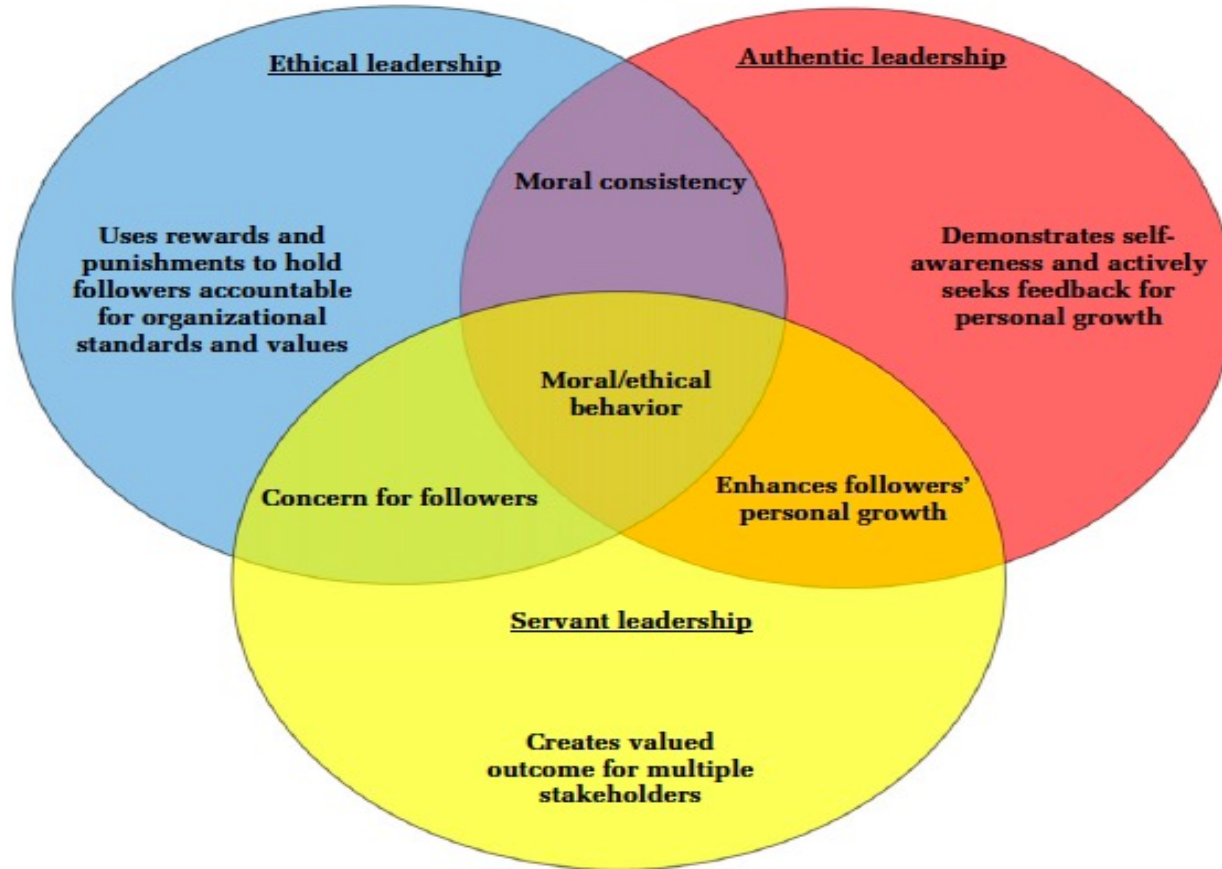
Dimensions of ethical leadership of Kalshoven et al. (2011)

- De Hoogh & Den Hartog (2008) distinguish different behavioural components as part of the ethical leadership style.
- Based on the theoretical work of Brown et al. (2005) and Treviño et al. (2003), they identify and separately measure three related but distinguishable ethical leader behaviours:
 - Fairness
 - Power sharing
 - Role clarification

Dimensions of ethical leadership of Eisenbeiss (2012)

- **Humane orientation** means to
 - treat others with dignity and respect and to see them as ends not as means.
- **Justice orientation** refers to
 - making fair and consistent decisions and not discriminating against others,
- **Responsibility and sustainability** orientation refers to
 - leaders' long-term views on success and their concern for the welfare of society and the environment, and
- **Moderation orientation** refers to
 - temperance and humility and balanced leader behaviour.
 - It may be expressed by
 - leaders' self-control,
 - their ability to restrain emotions and personal desires,
 - humility, as well as
 - careful and wise attempts to find a balance between (ethically neutral or positive) organizational objectives and stakeholder interests

Empirical Commonalities and Distinctions among Ethical, Authentic, and Servant Leadership



Walumbwa, F. O., Hartnell, C. A., & Misati, E. (2017). Does ethical leadership enhance group learning behavior? Examining the mediating influence of group ethical conduct, justice climate, and peer justice. *Journal of Business Research*, 72, 14-23.

Does ethical leadership enhance group learning behavior? Examining the mediating influence of group ethical conduct, justice climate, and peer justice.

Ethical leadership (EL): Introduction

- EL has gained **increased attention** among academics and practitioners alike
 - as organizations aim to **reduce liabilities associated** with unethical conduct.
- Research indicates that the heightened interest in promoting EL is warranted because it
 - **increases employees' ability to deal with conflict situations** (Babalola, Stouten, Euwema, & Ovadje, 2016) **and**
 - **reduces employee misconduct** (Mayer, Kuenzi, & Greenbaum, 2010),
 - **employees' unethical cognitions and behaviors** (Schaubroeck et al., 2012), **and**
 - **unit unethical behavior** (Mayer, Aquino, Greenbaum, & Kuenzi, 2012).
- Mounting evidence indicates that EL has implications
 - for a broader set of **employees' attitudes and behaviours** (Ng & Feldman, 2015; Trevino, den Nieuwenboer, & Kish-Gephart, 2014).
- Ng and Feldman (2015) meta-analytically documented the link between EL and attitudes and behaviors such as
 - **job satisfaction,**
 - **commitment,**
 - **organizational identification,**
 - **task performance, and**
 - **citizenship behaviors.**

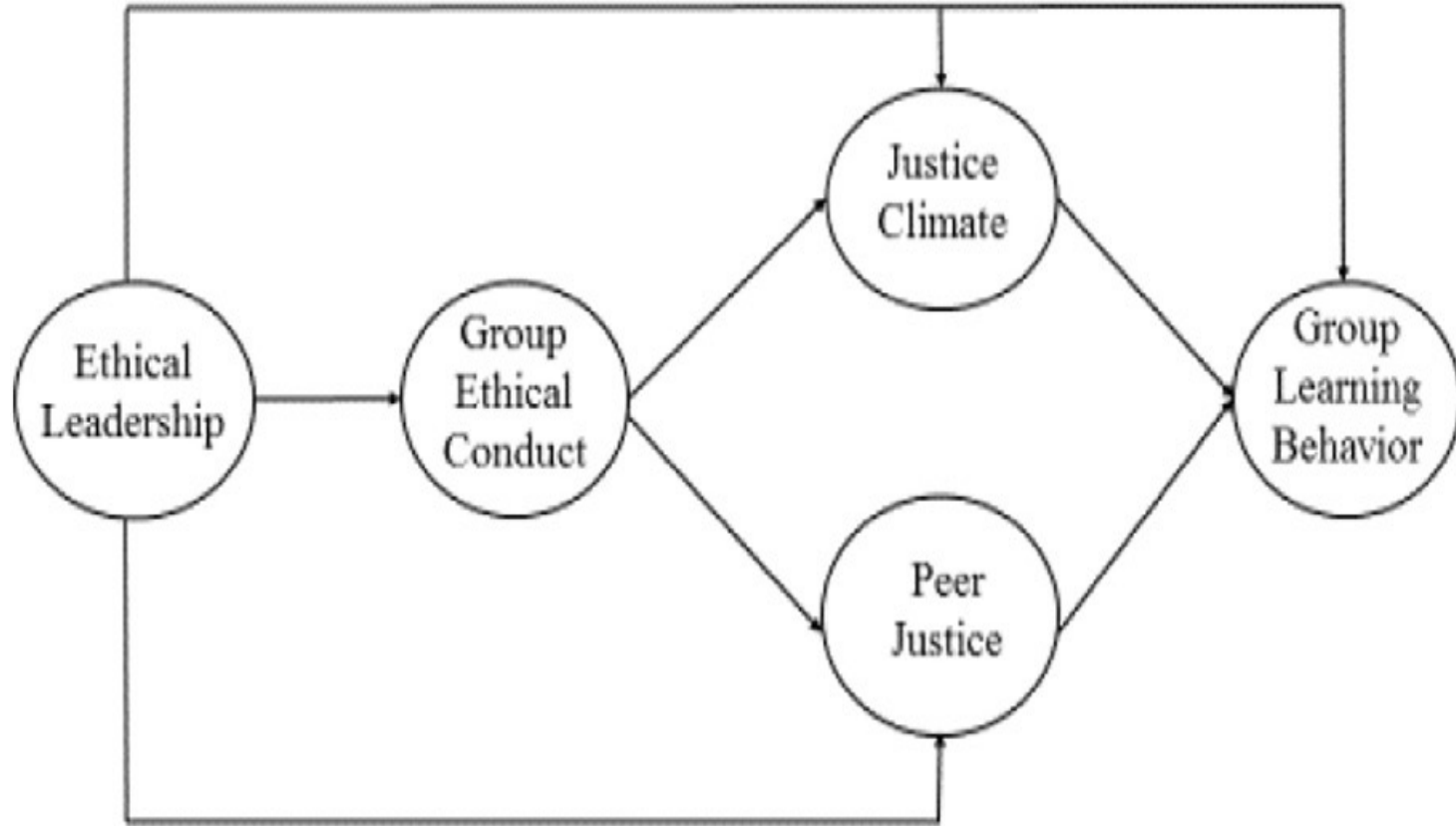
Ethical leadership: Defined

- EL is defined 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**” (Brown, Trevino, & Harrison, 2005, p. 120).
- EL creates
 - **a positive relational context that promotes followers' trust in the leader** (Ng & Feldman, 2015),
 - **perceptions of psychological safety, and**
 - **group members' promotive voice behaviors** (Walumbwa & Schaubroeck, 2009).
- These mechanisms encourage
 - **followers' proactive involvement in decision-making and**
 - **propensity to take risks,**
 - behaviors that are instrumental to group learning behavior.

EL and the social marketplace model (SMM)

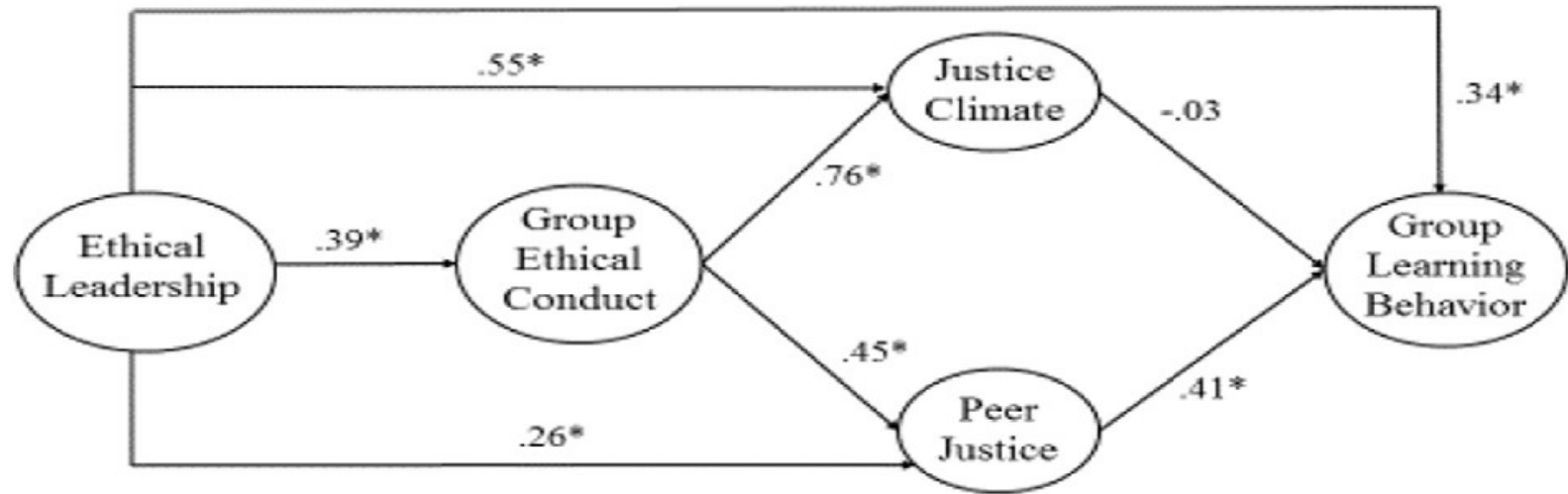
- EL is a positive form of leadership that
 - motivates followers to **adopt positive psychological states** (Avolio, Walumbwa, & Weber, 2009) **and**
 - engage in **behaviors beneficial** to the organization (Bedi, Alpaslan, & Green, 2016; Ng & Feldman, 2015; Trevino et al., 2014).
- We draw from the SMM to **describe why fair treatment motivates group members** to engage in **group learning behavior**.
- The SMM argues that
 - people **make judgments as to whether to invest their time and effort** in behavior that benefits the organization (Beugre & Liverpool, 2006).
- Workplaces act as a sort of social marketplace,
 - “wherein **employees and employers exchange resources**...in exchange for employee productivity”
- The SMM suggests that
 - **employees may be more apt to behave in a manner**
 - **that is beneficial to the group's long-term development and success**
 - **by taking part in group learning when**
 - **they are treated ethically and fairly by their supervisors and coworkers.**
- The SMM also suggests that EL
 - **promote a positive environment**
 - **in which group members adhere to organizational norms (i.e., group ethical conduct) and**
 - **are treated fairly by their supervisors (justice climate) and their fellow group members (i.e., peer justice).**

Model tested



Correlates of EL

Group ethical conduct	.84
Justice climate	.54
Peer justice	.52
Group learning	.54



Practical implications of the study

- The results suggest that organisations should
 - prioritize selecting and developing leaders
 - who view ethical conduct as a central part of their vision.
- This could be achieved through
 - selection or implementing training interventions
 - that provide stimuli for learning,
 - helping groups become ready to learn, and
 - providing resources and support
 - to facilitate the learning process (London & Sessa, 2007).
- The study's results also suggest that organisations should
 - invest in programs that promote supervisor and coworker fairness
 - to promote learning behaviours in organisations.
- Designing systems to enhance employees' ethics may be beneficial because
 - the results suggest that employee ethical conduct plays a pivotal role in
 - enhancing both justice climate and peer justice.

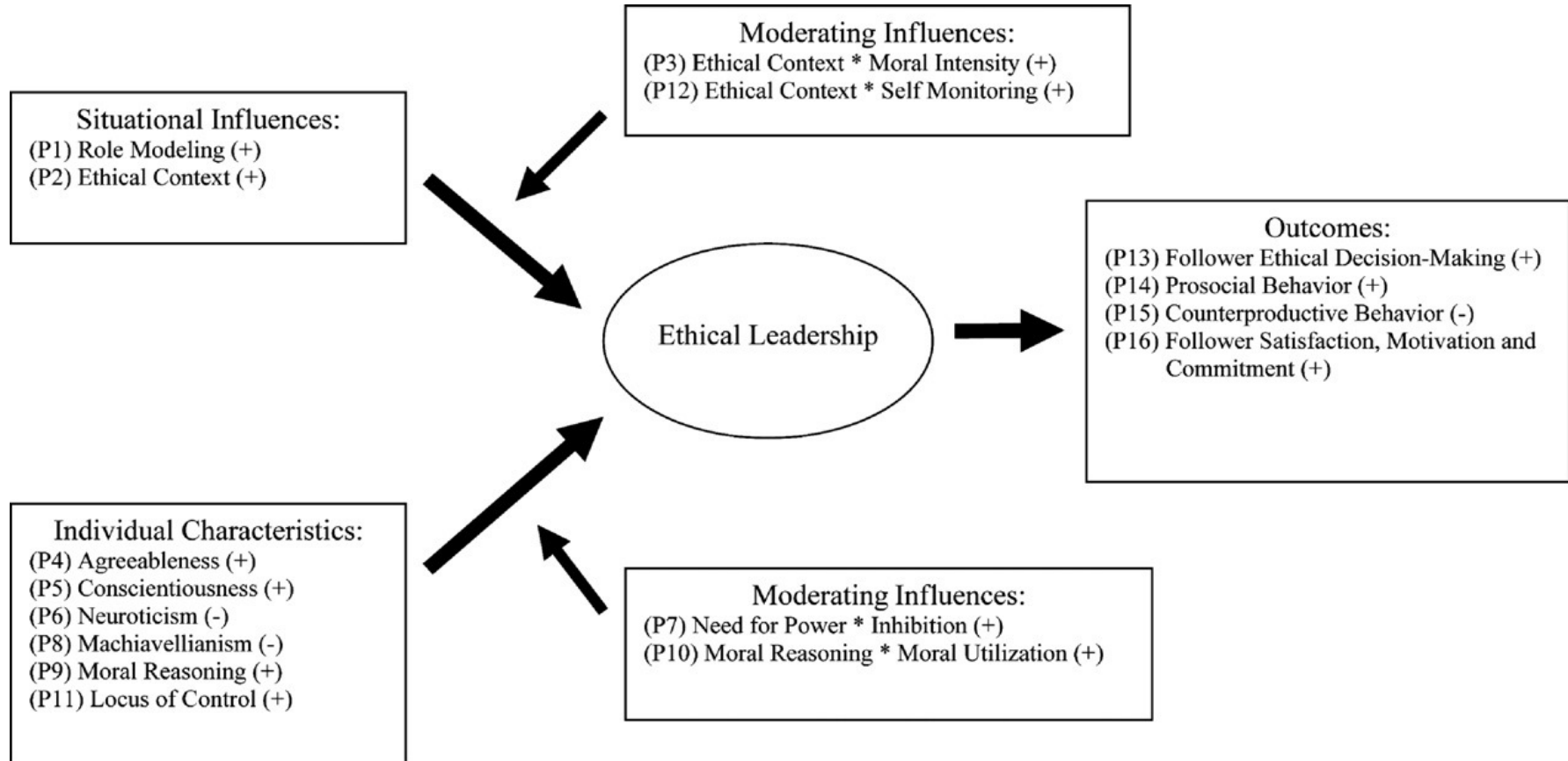
Practical implications of the study

- This means that
 - as employees learn and appreciate the benefits of ethical conduct,
 - that conduct could be valuable to organisations by enhancing
 - commitment, performance, and discretionary learning behaviour.
- Thus, organisations should invest more resources into training programs
 - that enhance ethical conduct as a way
 - to facilitate fairness in organisations.
- The findings suggest that business organisations
 - should invest additional resources
 - into cultivating ethical leaders and
 - finding creative ways to teach ethical conduct
 - to facilitate workplace fairness.
- Such investments will likely result in positive organisational outcomes
 - such as group learning behavior.

Brown, M. E., & Treviño, L. K. (2006). Ethical leadership: A review and future directions. *The leadership quarterly*, 17(6), 595-616.

Ethical leadership: A review and future directions.

Ethical leadership: A review and future directions



Ethical leadership

- Much has been written about ethics and leadership
 - from a **normative or philosophical perspective**,
 - **suggesting what leaders should do.**
- A more **descriptive and predictive social scientific approach** to ethics and leadership has
 - remained **underdeveloped and fragmented**,
 - leaving scholars and practitioners with **few answers to even the most fundamental questions**, such as “**what is ethical leadership?**”
- A comprehensive review was conducted of
 - the relevant **social scientific literatures**
 - that have **linked ethics and leadership**
 - in order to **clarify current understanding** and
 - point the **way for future research.**

What is EL?

- Philosophers have answered the question “ what is ethical leadership”
 - from a **normative perspective**, specifying
 - how ethical leaders “ **ought**” **to behave**
- By contrast, the social scientific approach to the topic is
 - focused more on **describing EL** as well as
 - identifying its **antecedents and consequences**.
- Observers have long believed that
 - personal traits such as **integrity**
 - would be **important** to **perceptions of leadership effectiveness** and
 - research has borne that out.
- Survey research has linked perceived leader effectiveness with
 - perceptions of **the leader's honesty**,
 - **integrity**, and
 - **trustworthiness** (Den Hartog et al., 1999; Kirkpatrick & Locke, 1991; Kouzes & Posner, 1993; Posner & Schmidt, 1992).
 - And, **cognitive trust** (the exercise of care in work, being professional, dependable; McAllister, 1995)
 - has been associated with **effective styles of leadership** as well (Dirks & Ferrin, 2002).

EL and personality characteristics

- EL are characterized as
 - honest,
 - caring, and
 - principled individuals who
 - make fair and balanced decisions.
- EL also
 - frequently communicate with their followers about ethics,
 - set clear ethical standards and
 - use rewards and punishments
 - to see that those standards are followed.
- Finally, EL
 - do not just talk a good game—
 - they practice what they preach and are
 - proactive role models for ethical conduct.

EL and the Moral manager

- Represents the leader's proactive efforts to
 - influence followers' ethical and unethical behavior.
- Moral managers make ethics an explicit part of their leadership agenda
 - by communicating an ethics and values message,
 - by visibly and intentionally role modeling ethical behavior, and
 - by using the reward system (rewards and discipline)
 - to hold followers accountable for ethical conduct.
- Such explicit behavior helps the ethical leader
 - to make ethics a leadership message
 - that gets followers' attention by
 - standing out as socially salient
 - against an organisational backdrop
 - that is often ethically neutral at best

Correlates of EL [Ethical Leadership Scale (ELS)].

- Supervisory EL was **positively associated with**, yet empirically distinct from
 - leader consideration,
 - interactional fairness,
 - leader honesty, as well as
 - the idealized influence dimension of transformational leadership
 - affective trust in the leader and
- **negatively related to**
 - abusive supervision,
- **but it is unrelated to**
 - either **rater demographics** or
 - perceived **demographic similarity** between leader and subordinate.
- Perhaps most importantly, **subordinates' perceptions of EL** predict
 - satisfaction with the leader,
 - perceived leader effectiveness,
 - willingness to exert extra effort on the job, and
 - willingness to report problems to management.
- All of these effects were found to operate **beyond the effect of the idealized influence dimension of TL**,
 - arguably the **existing leadership** construct that is **conceptually closest to EL**.

Social learning (SL) theory and EL

- We rely on SL theory (Bandura, 1977, 1986) to explain
 - the antecedents and outcomes of EL.
- SL theory sheds light on
 - why some individual characteristics of the leader and
 - situational influences are related to
 - followers' perceptions of a leader as an EL.
- According to the SL theory,
 - for leaders to be seen as EL by their followers,
 - they must be attractive and credible role models.
- In our review of the ethics and leadership literature, we identify
 - a number of situational influences and
 - individual characteristics
 - that enhance model attractiveness and credibility.

Social learning theory and EL

- In addition, SL theory helps to explain
 - why and how EL influence their followers.
- SL theory is based on the idea that
 - individuals learn by paying attention to and
 - emulating the attitudes, values and behaviors
 - of attractive and credible models.
- Most individuals look outside themselves to other individuals
 - for ethical guidance (Kohlberg, 1969; Treviño, 1986).
- EL are likely sources of guidance because
 - their attractiveness and credibility as role models
 - draw attention to their modeled behavior.
- Power and status are two characteristics of models that
 - enhance their attractiveness,
 - thus making it more likely
 - that followers will pay attention
 - to ethical leaders' modeled behavior.

Social learning theory and EL

- Most leaders possess authority because
 - they occupy positions of status relative to their followers.
- But attractiveness involves much more than authority and status.
- Nuturant models
 - who demonstrate care and concern and
 - treat others fairly
 - are attractive to followers and
 - gain positive attention.
- Credibility also enhances model effectiveness.
- EL are credible because they
 - are trustworthy and practice what they preach.
- As Bandura noted,
 - “if models do not abide by what they preach,
 - why should others do so?”

Social learning theory and EL

- In a corporate environment where ethics messages can get lost
 - amidst messages about the bottom line and the immediate tasks at hand,
- EL also focus attention on ethics
 - by frequently communicating about ethics and
 - making the ethics message salient.
- They set clear and high ethical standards for others and
 - follow these standards themselves.
- They also use rewards and punishments
 - to influence followers' ethical behavior
- Research shows that reinforcement plays an important role
 - in modeling effectiveness because
 - observers pay close attention
 - to those who control important resources and
 - to rewards and punishments.

Ethical role modeling

- SL theory can help us to understand **why some leaders are more likely to be EL.**
 - Followers are not the only ones who learn from models.
 - Leaders learn from models too.
- By observing an **ethical role model's behavior** as well as
- **the consequences of their behaviour,**
 - leaders should come to identify with the model,
 - internalize the model's values and attitudes,
 - and emulate the modeled behavior (Bandura, 1986).
- Thus, having had an ethical **role model in one's career**
 - is likely to contribute to the development of ethical leadership.

Ethical role modeling

- Trevino et al.'s (2000) interviewees said that
 - having an **ethical role model** was **an important antecedent of EL**.
- In order to better understand ethical role modeling, researchers
 - interviewed individuals who **had been influenced by an ethical role model** at work.
 - Their informants identified
 - **many characteristics and behaviors** of those who had been their ethical role models.
- Characteristics such as
 - **caring,**
 - **honesty,**
 - **fairness** and
 - behaviors such as **setting high ethical standards**
 - and **holding others accountable**
 - were similar to those previously associated with EL.
- But, interviewees also identified some characteristics of ethical role models
 - that **differed from those previously associated with EL**
 - such as **willingness to turn mistakes into learning experiences and humility.**

Ethical role modeling

- Interestingly, almost all of the ethical role models identified in previous research
 - were individuals with whom informants had worked closely and frequently,
 - not distant executives.
- Weaver and colleagues called ethical role modeling
 - a “side by side phenomenon” because
 - *“ethical role models are well known by their daily conduct and interactions — the way they behave and the way they treat other people”* (Weaver et al., 2005 , p. 12).
- Given the importance often attributed to early moral development and the influence of senior leadership to create the tone at the top of organizations,
 - Brown & Trevino (2006b) investigated the influence of three possible types of role models on the development of EL—
 - early childhood role models,
 - career mentors, and
 - top managers.
- Their results indicated that having had an ethical mentor in one's career was positively related to EL.
 - Leaders who said that they had previously had an ethical role model at work were
 - more likely to be identified as EL by their followers.
 - However, early childhood models and ethical role modeling from top managers
 - were unrelated to perceptions of EL.

Moral intensity of issues faced

- **Moral awareness** (recognizing the moral aspects of a given situation)
 - is a **first interpretive step** in the **ethical decision-making process** (Jones, 1991; Rest, 1986).
 - if one **does not recognize an issue as having moral content**,
 - then **ethical judgment processes are not likely to be engaged**.
- Within the **business ethics literature**,
 - much of the **research on moral awareness** has focused on
 - the **moral intensity** (Jones, 1991) of the issues facing the decision-maker.
- Research has demonstrated that **two dimensions of moral intensity influence moral awareness (as well as ethical intentions)**:
 - **the magnitude of consequences** (the **potential harm that might result** from the situation) and
 - **social consensus** (the existence of strong ethical norms in a given situation) (Butterfield, Treviño, & Weaver, 2000; Flannery & May, 2000; Frey, 2000; May & Pauli, 2002; Singhapakdi, Vitell, & Kraft, 1996).

Moral intensity of issues faced

- The **magnitude of consequences** is particularly important for EL because
 - EL consider the consequences that their potential actions will have on others.
 - When the **potential for great harm** exists, observers will pay attention to the **decision-maker** to see how he or she handles the situation.
 - When leaders face **situations that have the potential to cause great harm and handle them in an ethically appropriate manner** (as judged by followers), **then the leader will be seen as an ethical leader.**
- The **relationship** between **moral intensity** and **ethical leadership** is complex.
- Morally intense situations **draw observers' attention to the leader.**
 - These situations can be **considered proving grounds for ethical leadership.**
- When morally intense situations are **handled correctly**,
 - **moral intensity will be positively associated with perceptions** of ethical leadership.
 - But if these situations are **mishandled**,
 - then they will be negatively associated with **perceptions of ethical leadership.**

Ethical context in the organization

- Ethical **climate has been defined** as
 - “ the prevailing perceptions of typical organizational practices and procedures that have ethical content” or
 - “ those aspects of work climate that determine what constitutes ethical behavior at work” (Victor & Cullen, 1988 , p. 101).
- Victor & Cullen (1987, 1988) **proposed nine types of ethical climate** based upon
 - **three** philosophical approaches (principle, benevolence, and egoism) and
 - **three** levels of analysis (individual, local, cosmopolitan).
- They **hypothesized that each climate type**
 - was associated with specific normative expectations.
- Subsequent research has found support for some, but not all, of **the climate dimensions and their relationships with outcomes.**
 - Research found a relationship between employees' perceptions of a **benevolent ethical climate** and organizational commitment.
 - Other research has shown that **ethical climate dimensions** can positively influence **managers' ethical decision-making intentions** (Flannery & May, 2000) and
 - that **ethical climate dimensions** are **negatively related to willingness to lie** (Ross & Robertson, 2000).

Ethical context in the organization

- Trevino (1986) **proposed ethical culture as a subset or slice** of
 - the **organization's overall culture**
 - that can **moderate the relationship** between an
 - individual's **moral reasoning level** and **ethical/unethical behavior**.
- She argued that **individuals at higher levels of moral reasoning** (principled individuals)
 - should be **less susceptible to influences from the organizational culture**.
- Trevino (Trevino, 1990; Trevino & Nelson, 2007) **later defined ethical culture** in terms of
 - the **formal and informal behavioral control systems**
 - (e.g., leadership, authority structures, reward systems that support ethical conduct, fair treatment of employees, codes and policies, decision-making processes, ethical norms, peer behavior, etc.)
 - that can **support either ethical or unethical behavior in an organization**.
- An important **component of the ethical culture** was
 - the **reward system that supports** ethical or unethical conduct.
 - Research has long suggested that **ethical behavior is influenced by organizational rewards and punishments** (Ashkanasy, Windsor, & Trevino, 2006; Hegarty & Sims, 1978; Tenbrunsel, 1998; Trevino, 1986; Trevino & Youngblood, 1990).

Personality characteristics and EL

- The **Five Factor (or Big Five) typology** conceptualizes personality as **clusters of traits** that are organized within **five dimensions**:
 - **agreeableness** (describing someone who is altruistic, trusting, kind and cooperative),
 - **openness** (imaginative, curious, artistic, insightful),
 - **extraversion** (active, assertive, energetic and outgoing),
 - **conscientiousness** (dependable, responsible, dutiful, determined), and
 - **neuroticism** (anxious, hostile, impulsive, stressed).
- Meta-analytic results indicate that **controlling for the other Big Five traits**,
 - **extraversion and openness to experience** are most **strongly related** to **general leadership effectiveness**,
 - while **conscientiousness and extraversion** are most **strongly related** to **leader emergence** (Judge, Bono, Ilies, & Gerhardt, 2002).
 - **Neuroticism and agreeableness** have been found to be **only weakly related** to **leadership** (Judge et al., 2002).

Personality characteristics and EL

- But, research on personality and TL has produced different results.
 - agreeableness was most strongly related to transformational leadership,
 - while conscientiousness was unrelated, controlling for the other traits (Judge & Bono, 2000).
- In particular, agreeableness was most strongly correlated ($r = .28, p < .05$) with the idealized influence dimension of TL,
 - the dimension that is comprised of ethical content.
- A meta-analysis of personality and TL (Bono & Judge, 2004) found that across multiple studies,
 - extraversion (positively) and neuroticism (negatively) were consistently related to the charisma dimension of TL— a dimension that contains idealized influence.

Personality characteristics and EL

- We expect agreeableness to be the personality trait with the strongest influence on EL.
 - Agreeableness reflects the tendency to be trusting, altruistic and cooperative.
 - By definition, EL are altruistically motivated, caring, and concerned about their followers and others in society (Trevino et al., 2003).
 - From a social learning perspective, nurturant individuals are more effective as models because they attract and keep observers' attention better than non-nurturant individuals (Yussen & Levy, 1975).
- Highly conscientious individuals
 - exercise self-control, carefully plan, are well organized and reliable.
- In terms of conscientiousness,
 - “ low scorers are not necessarily lacking in moral principles, but they are less exacting in applying them” (Costa & McCrae, 1992 , p. 16).
 - Conscientious individuals are responsible and dependable.
 - These qualities are consistent with credibility which enhances model effectiveness according to social learning theory.
- Leaders who set clear principles and standards must be exact in applying them to themselves and others in order to be seen as EL.
 - Otherwise, they run the risk of being seen as
 - hypocritical, preaching lofty ethical standards but failing to apply them consistently.
 - Therefore, it's propose that highly conscientious individuals are more likely to be seen as EL

Personality characteristics and EL

- Neuroticism reflects the leader's tendency to experience negative emotions such as
 - anger,
 - fear, and
 - anxiety.
- Neurotic leaders are
 - thin-skinned and
 - hostile toward others.
- From a social learning standpoint,
 - thin-skin and hostility are
 - hardly the qualities that one associates
 - with attractive and credible models.
- By contrast, EL are exemplary models who
 - care about and maintain positive relationships with their subordinates.
- Therefore, it's propose that
 - neuroticism is negatively related to ethical leadership.

Motivation and EL

- McClelland's (1975, 1985) theory of motivation specifies 3 main motives—
 - the power motive (the need to influence others),
 - the achievement motive (the desire to accomplish something better or more efficiently than it has been done previously), and
 - the affiliation motive , (the desire to have positive relationships with others).
- Research suggests that
 - a high need for power,
 - a moderate need for achievement, and
 - a moderate to low need for affiliation are
 - associated with leader effectiveness (McClelland & Boyatzis, 1982).
- However, with regard to the need for power, McClelland distinguished between individuals who
 - use power for self-aggrandizement (personalized power) and
 - those who use power with greater inhibition and desire to use it for the benefit of others (socialized power).
 - Research suggests that leaders with higher power inhibition are more effective (McClelland & Boyatzis, 1982; McClelland & Burnham, 1976).
- Power inhibition has been positively related to
 - respect for institutional authority, discipline and self-control, caring for others and concern for just reward (McClelland, 1975, 1985).
- Research revealed important differences between socialized and personalized CL,
 - with the former being the more ethical of the two styles of leadership.

Machiavellianism and EL

- Machiavellianism is defined as
 - “ the use of guile, deceit, and opportunism in interpersonal relations”
- In contrast to ethical leaders,
 - Machiavellian leaders are motivated
 - to manipulate others in order to accomplish their own goals.
 - They have little trust in people and in turn,
 - tend not to be trusted by others.
- In a historiometric study of the United States presidency, Deluga (2001) found that
 - Machiavellianism was positively related to charisma and perceived greatness.
- However, the majority of research shows that the Machiavellianism
 - is associated with negative effects.
- For example, Machiavellianism was related to
 - willingness to pay illegal kickbacks in Hegarty & Sims' (1978) laboratory study.
- Other research has found that Machiavellianism is positively related to
 - salespersons' willingness to lie (Ross & Robertson, 2000).

Additional individual characteristics

- Individuals differ in how
 - they think about ethical issues and how
 - they think about themselves
 - in relation to other people and events.
- It's propose that three additional individual differences will influence EL:
 - Moral judgment level
 - Locus of control
 - Self-monitoring
- Moral judgment level (and moral utilization),
 - Researchers have used Kohlberg's (1969) **theory of cognitive moral development** (CMD) to
 - explain **differences in the reasoning processes** that **people use to make moral judgments**.
 - differences in the way **individuals think about what is right** in a given situation
 - ethical **reasoning becomes more sophisticated**, more **autonomous**, and more **principled over time**.
 - Individuals **move up through moral judgment stages**, with higher **stages requiring increased cognitive capacity**.
- Cognitive moral development theory suggests that
 - **principled reasoning** is based upon **one's development of the capacity** for higher level moral reasoning.

Kohlberg's theory of cognitive moral development (CMD)

- Individuals at the first 2 stages (termed the pre-conventional level) reason about what is right based upon
 - obedience and fear of punishment (stage 1) or
 - exchange in relationships (e.g., one hand washes the other) (stage 2).
- Individuals at the middle two stages (termed the conventional level),
 - decide what's right based on
 - the expectations of significant others (stage 3) or
 - rules or laws (stage 4).
- Individuals at the highest stages (termed the principled level)
 - determine what is right by
 - upholding internally-held values and standards regardless of majority opinion (stage 5) or by
 - looking to universally held deontological principles of justice and rights (stage 6).
- Stage six was hypothesized,
 - but is now considered to be a theoretical stage only because evidence of it has rarely
- Those who reason at principled levels are more likely
 - to behave ethically in order to achieve consistency between their thoughts and their actions.

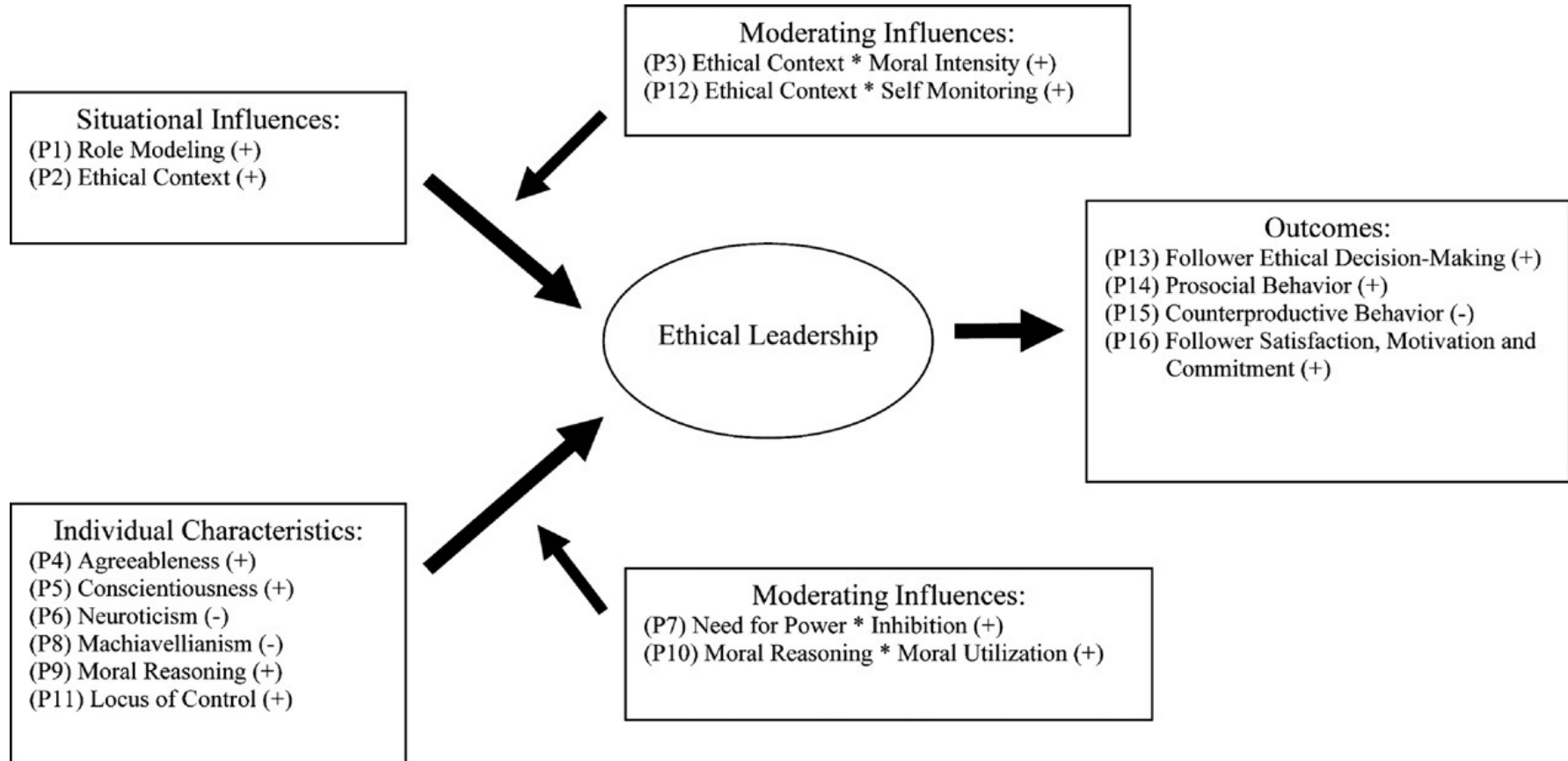
Moral utilization

- It's expected that the relationship between moral reasoning and ethical leadership
 - will be particularly strong for individuals who are high in moral utilization.
- The idea behind moral utilization is that
 - individuals differ not only in their moral reasoning capacity,
 - but in the extent to which they actually utilize
 - their capacity for principled thinking in ethical decision-making.
- A moral utilization score (Thoma, Rest, & Davison, 1991) is assessed by
 - the Defining Issues Test (Rest, 1979),
 - a commonly used measure of moral judgment.
- Schminke, Ambrose, & Neubaum (2005) found that moral utilization
 - strengthened the relationship between
 - the leader's cognitive moral development and moral climate in the organization.
- Having the capacity to make moral judgments
 - does not ensure that one will be seen as an attractive model.
 - The capacity must be utilized
 - so that observers can see this moral reasoning put into action and learn from it.

Locus of control (LC) and EL

- LC is the perceived control that one has over the events in his/her life.
 - Individuals with an internal LC perceive greater control, while those with an external LC perceive that fate or powerful others exert great influence on such events.
- Trevino (1986) proposed that internals would behave more ethically
 - because they are more likely to perceive the connection between
 - their own behavior and the outcomes produced by that behavior.
 - As a result, they are more likely to take responsibility for the outcomes of their actions.
- Trevino & Youngblood (1990) found that
 - subjects with an internal LC exhibited more ethical behavior in an in-basket exercise.
- Similarly, Hegarty & Sims (1978) found that
 - an external LC was related to unethical behavior (e.g. willingness to make unethical kick-back payments).
- Within the leadership literature, studies have found that an
 - internal locus of control is positively related to effective leadership (Miller & Toulouse, 1986).
 - Howell & Avolio (1993) also found that internal LC was positively related to TL.

Ethical leadership: A review and future directions



Propositions that consider individual and contextual influences on EL as well as the outcomes of EL

Situational influences on ethical leadership

- Being able to identify a **proximate, ethical role model** during one's career is **positively related to EL** (ethical role modelling).
- An **ethical context** that supports ethical conduct will be **positively related to EL**
- **Moral intensity** (magnitude of consequences and social consensus) **enhances the relationship between ethical context and EL.**

Propositions that consider individual and contextual influences on EL as well as the outcomes of EL

Individual characteristics and ethical leadership

- Agreeableness is positively related to EL.
- Conscientiousness is positively related to EL.
- Neuroticism is negatively related to EL.
-
- Power inhibition enhances
 - the relationship between need for power and EL.
- Machiavellianism is negatively related to EL.
- Leader moral reasoning level is positively related to EL.

Propositions that consider individual and contextual influences on EL as well as the outcomes of EL

Outcomes of ethical leadership

- EL is **positively** related to **follower ethical decision-making**.
- EL is **positively** related to **prosocial (e.g. OCB) behavior**.
- EL is **negatively** related to **employee counterproductive behavior**.
- EL is **positively** related to **follower satisfaction**
- EL is **positively** related to **follower motivation**
- EL is **positively** related to **follower organizational commitment**

Propositions that consider individual and contextual influences on EL as well as the outcomes of EL

Individual characteristics and ethical leadership (Continue)

- Moral utilization enhances
 - the relationship between moral reasoning and EL.
- Leaders with an internal locus of control will demonstrate stronger EL
 - compared to leaders with an external locus of control.
- Self-monitoring moderates
 - the relationship between social context and ethical leadership.
- Compared to low self-monitors,
 - high self-monitors should be more influenced
 - by contextual support for ethical (or unethical) leadership behavior.

ETHICS AND CORPORATE REPUTATION

ROSSOUW CHAPTERS 9, 10 & 11

INSTITUTIONALISE CORPORATE ETHICS

Three Aspects

- Legal Compliance
- Ethical Compliance
 - Formal Ethical Compliance
 - Effective ethical compliance – develop code of ethics
- Build an ethical culture – promoting and integrating
 - Training
 - Communication
 - Discipline
 - “Tone at the top”
 - Good Corporate governance
 - Etc, etc

THREE APPROACHES TO INSTITUTIONALISE

- Compliance Approach
 - Rules based
- Values Approach
 - Values based
- Integrated Approach
 - Both values and rules
 - Promote ethical behaviour and zero tolerance

APPENDIX A
Rules for a successful business
MEYER ROTHCHILD

1. Carefully examine every detail of the business
2. Be prompt
3. Take time to consider and then decide quickly
4. Dare to go forward
5. Bear your trouble patiently
6. maintain you integrity as a sacred thing
7. Never tell business lies
8. Make no useless acquaintances
9. Never try to appear something more than you are
10. Pay your debt promptly
11. Learn how to risk your money at the right time
12. Shun strong liquor
13. Employ your time well
14. Do not reckon on chance
15. Be polite to everyone
16. Never be discouraged
17. Work hard and you will succeed

WILLIAM H BOETCKER

1. You cannot bring about prosperity by discouraging thrift
2. You cannot strengthen the weak by weakening the strong
3. You cannot help small men by tearing down big men
4. You cannot help the poor by destroying the rich
5. You cannot lift the wage-earner by pulling down the wage-payer
6. You cannot keep out of trouble by spending more than your income
7. You cannot further the brotherhood of man by inciting class hatred
8. You cannot establish sound security on borrowed money
9. You cannot build character and courage by taking away a man's initiative and independence
10. You cannot help men permanently by doing for them what they could and should do for themselves.

APPENDIX

ETHICAL DECISION-MAKING

Quick ethical tests

Before making a decision or acting, ask the following
(The Centre for Business Ethics at Bentley College)

1. Is it right?
2. Is it fair?
3. Who gets hurt?
4. Would you be comfortable of the details of your decision were reported on the front page of your local newspaper
5. What would you tell your child to do?
6. How does it smell? (How does it feel?)

Other quick ethical tests, some of which is classic, include:

- ***The Golden Rule:*** “Do unto others as you would have them do unto you.” This includes not knowingly doing harm to others
- ***The Intuition Ethic:*** We know apart for reason what is right. We have a moral sense about what is right and wrong. We should follow our “gut feeling” about what is right.
- ***The Means-Ends Ethic:*** We may choose unscrupulous but efficient means to reach an end if the ends are really worthwhile and significant. Be sure the ends are not the means.
- ***The Test of Common Sense:*** “Does the action that I am ready to take really make sense?” Think before acting.
- ***The Test if One’s Best Self:*** “Is this action or decision that I am ready to take compatible with my concept of myself at my best?”
- ***The Test of Ventilation:*** Do not isolate yourself with your dilemma. Get others’ feedback before acting or deciding.
- ***The Test of the Purified Idea:*** “Am I thinking this action or decision is right just because someone with authority or knowledge says it is right? You may still be held responsible for taking the action.

EIGHT STEPS FOR ETHICAL DECISIONS

1. Gather the facts
2. Define the ethical issue
3. Identify the affected parties (stakeholders)
4. Identify the consequences for them
5. Identify their claims or rights
6. Indentify the obligations to them
7. Consider your own character and integrity
8. Think creatively about potential actions
9. Discuss your decision with others
10. Check your gut feeling

“PLUS” filter of values

- Policy and Procedures (Internal)
- Law and Regulation (External)
- Universal ethical values (including the values of your organisations Code of Ethics)
- Self – One’s personal value, or personal understanding of universal values

AN ETHICS QUICK TEST

1. Is it legal?
2. Do my organisation's Code of Ethics/Conduct and other policies allow it?
3. Do my professional standards allow it?
4. What would my ethical role model do?
5. How would it look on the front page of tomorrow's local newspaper?
6. How does it make me feel?
7. Would I be comfortable sharing my decision with my closest family?
8. Does it pass the Golden Rule test?

QUICK TEST

1. Is it legal?
2. How will it look in the newspaper?
3. Is it consistent with values (my own and/or the company's)?
4. Is it fair to all
5. If I do it, will I feel bad?

APPENDIX C

Ten silently questions in regard to the issues before the board

MERVYN KING

1. Do I as director of this board have any conflict in regard to the issue before the board?
2. Do I have all the facts to enable to make a decision on the issue before the board?
3. Is the decision being made a rational business one based on the facts available at the time of the board meeting?
4. Is the decision in the best interest of the company?
5. Is the communication of the decision to the stakeholders of the company transparent with substance over form and does it contain all the negative and positive features bound up in that decision?

6. Will the company be seen as a good corporate citizen as a result of this decision?
7. Am I acting as a good steward of the company's assets in making this decision?
8. Have I exercised the concepts of intellectual honesty and intellectual naivety in acting on behalf of this incapacitated company?
9. Have I understood the material in the board pack and the discussion at the boardroom table
10. Will the board be embarrassed if its decision and the process employed in arriving at its decision were to appear on the front page of a national paper?

APPENDIX D

Seven symptoms of the failure of ethical leadership provide a practical lens to examine a leader's short-sightedness (Dunlap)

- ***Ethical Blindness:*** They do not perceive ethical issues due to inattention or inability.
- ***Ethical Muteness:*** They do not have or use ethical language or principles. They “talk the talk” but do not “walk the talk on values
- ***Ethical Incoherence:*** They are not able to see inconsistencies among values they say they follow; e.g. they say they value responsibility, but reward performance based only on numbers.
- ***Ethical Paralysis:*** They are unable to act on their values for lack of knowledge or fear of the consequences of their actions.
- ***Ethical Hypocrisy:*** They are to committed to their espoused values. They delegate things that the are unwilling to or cannot do themselves.
- ***Ethical Schizophrenia:*** They do have a set of coherent values; they act at work one way, at home another way.
- ***Ethical Complacency:*** They believe that can do no wrong because of who they are. They believe they are immune to being unethical.

General tactics that serve as a basic start for preventing as well as solving ethical dilemmas internationally(De George)

1. Do not violate the very norms and values that you want to preserve and that you use to evaluate your adversary's actions to be unethical. Seek to pursue with integrity economic survival and self-defence tactics. Winning a tactical battle unethically or illegally is not the goal.
2. Use your moral imagination, because there are no specific rules for responding to an ethical opponent. Stakeholder analysis can help. Explore different options.
3. Use restraint and rely on those to whom the use of force is legitimately allocated when your response to immortality involves justifiable force or retaliation.
4. Apply the principle of proportionality when measuring your response to an unethical opponent

5. Use the technique of ethical displacement when responding to unethical forces. This principle consists of searching for deification and a solution to a dilemma o different , higher levels than the personal.
6. Use publicity to respond to an unethical practice, adversary, or system
Corruption, unethical and illegal practices and actions, operates best in the dark. Using publicity judiciously can mobilize pressures against the perpetrators
7. Work jointly with others to create new social, legal, or popular structures and institutions to respond to immoral opponents.
8. Act with moral courage and from your values, personally and corporately.
9. Be prepared to pay a price, even a high one. Innocent people sometimes must pay costs that others impose on them by their unethical and illegal activities.
10. Use the principle of accountability when responding to an unethical activity. Those who harm others must e held accountable for their acts.

Thank you