Ethical Leadership

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Outline

- Why ethical leadership matters more than ever
- Why good people do bad things
- Ethical models and ethical decision making
- Definitions of Ethical Leadership
- Recent research findings
- Next steps for ethical leadership research

Why it matters

- *Our concern over ethics have become even stronger due to the worldwide financial crisis, in which it became strikingly clear that the irresponsible (and unethical) behavior of managers and organizations inflicts pain on society and its members....the erosion of ethics and basic principles of right and wrong have taken us to the point at which trust in our institutions and the very systems that make our society work is in imminent danger of oblivion*

  (De Cremer and Tenbrunsel, 2012).

Why it matters

- Rothkopf: In the wake of the 2008 financial meltdown should large financial institutions been broken up to protect the financial system in the future?

- Robert Rubin: "Don't you see? Too big to fail isn't a problem with the system. It *is* the system

- David Rothkopf: Undersecretary for Commerce Clinton Administration, author of Power Inc: The Epic Rivalry between Big Business and Government
- Robert Rubin: Former U.S. Treasury Secretary
- In *Bloomberg BusinessWeek* March 11, 2012, p90
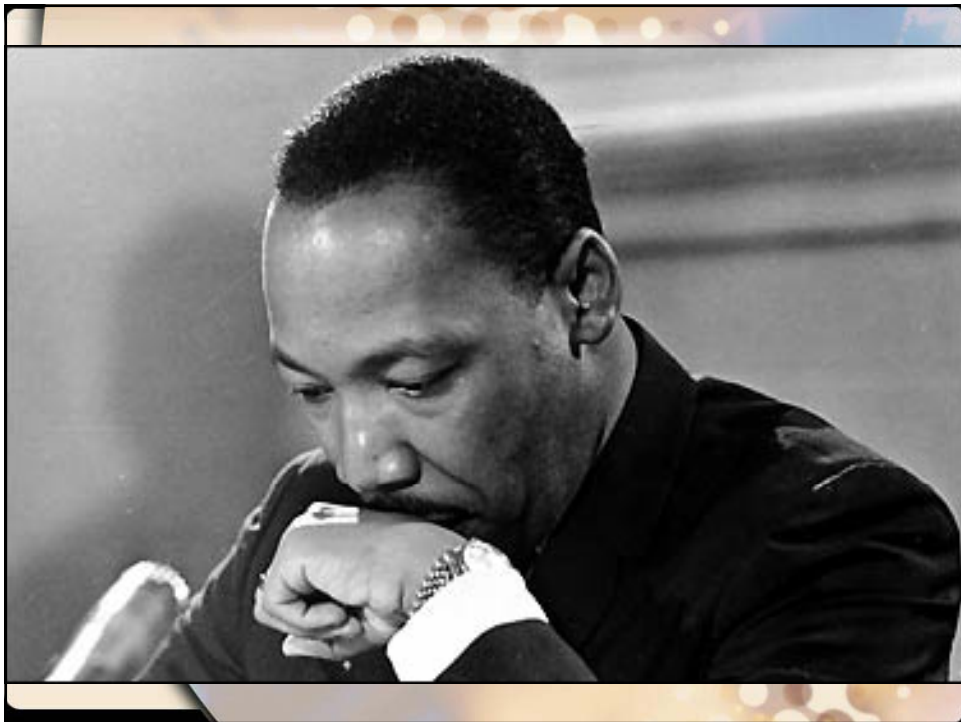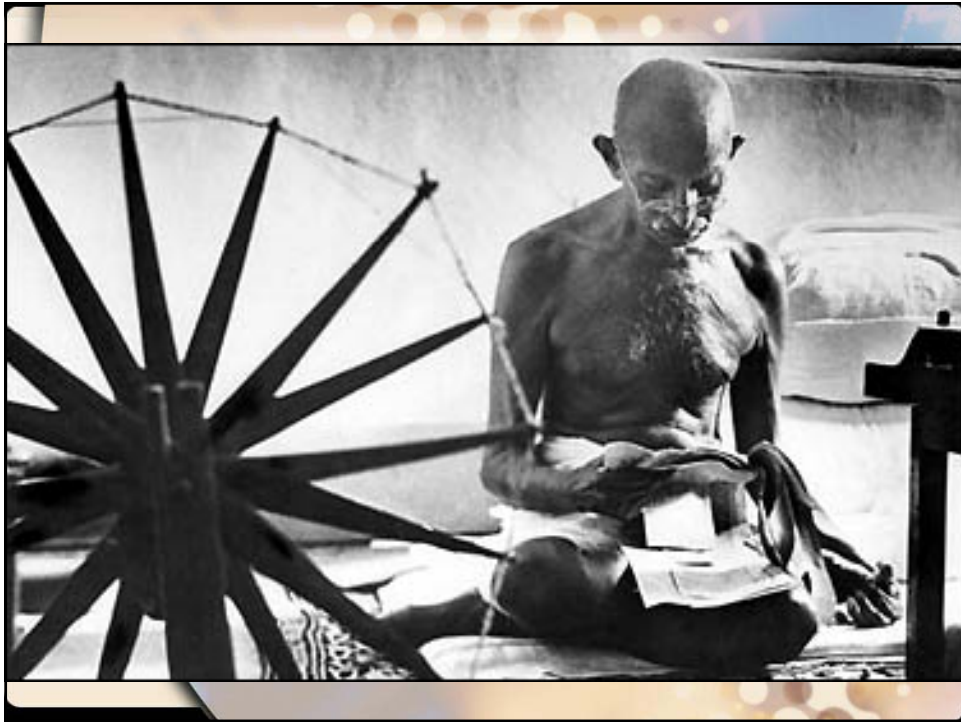
Jim Rider / South Bend Tribune
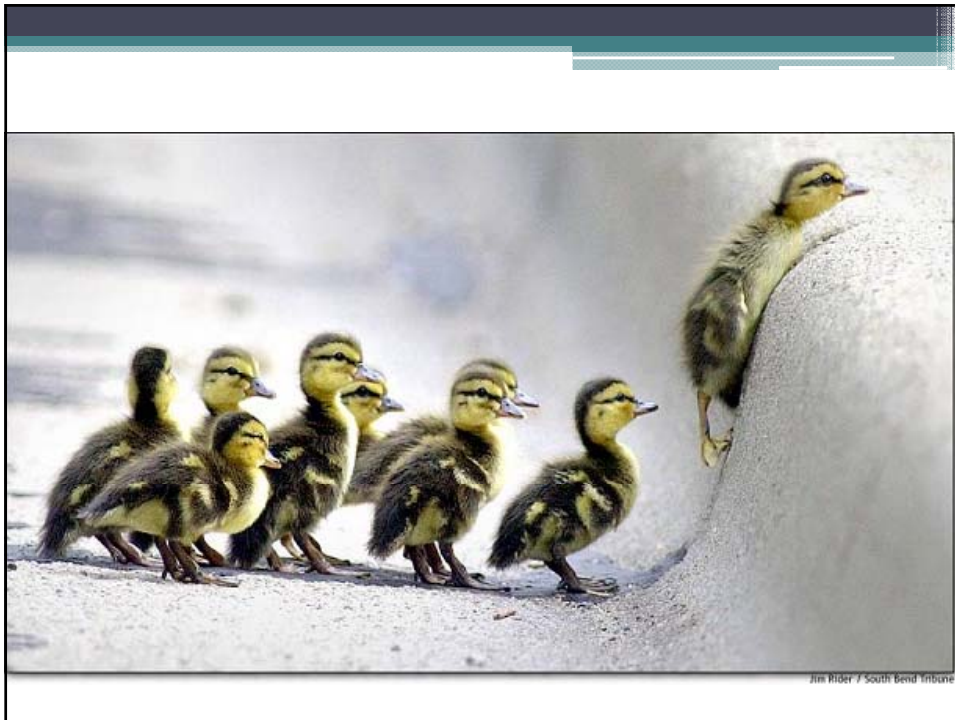
A Definition of Leadership

The process of *influencing* an organized *group* toward accomplishing *its* goals.

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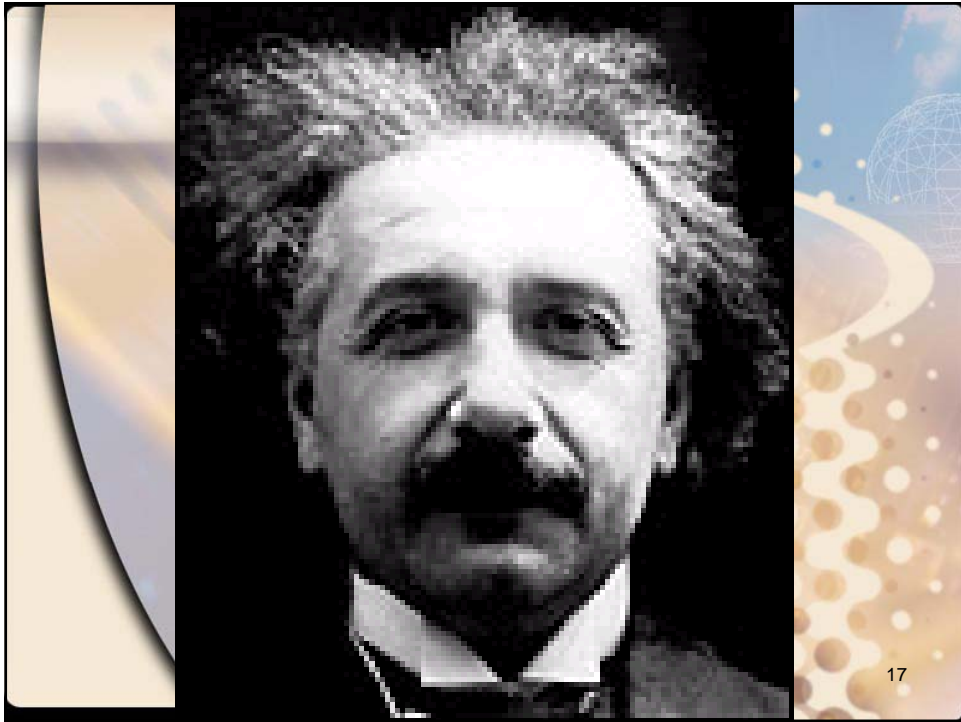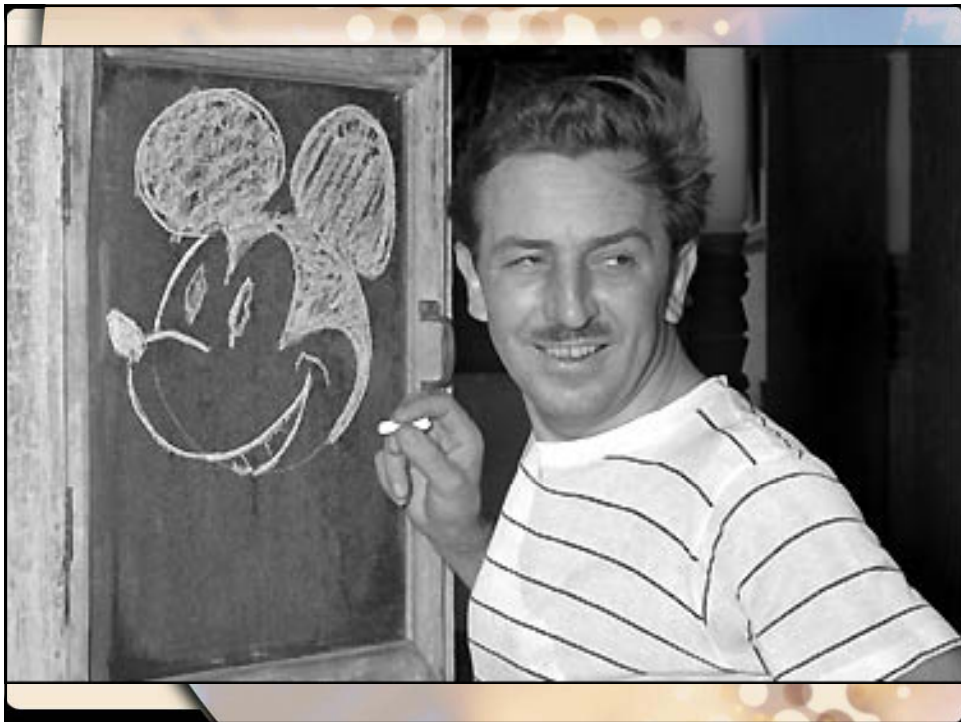|		
Just	Dynamic	Decisive
Honest	Motive arouser	Effective bargainer
Foresighted	Confidence builder	Win-win problem solver
Plans ahead	Motivational	Administratively skilled
Encouraging	Dependable	Communicative
Informed	Coordinator	Team builder
Excellence oriented		

Source: Adapted from House et al. *Cultural Influences on Leadership and Organizations: Project Globe. Advances in Global Leadership.* Vol. 1. JAI Press Inc., 1999, pp. 171–233.

Loner	Nonexplicit
Asocial	Egocentric
Noncooperative	Ruthless
Irritable	Dictatorial

TABLE 6.6   Examples of Leader Behaviors and Attributes That Are Culturally Contingent

Source: Adapted from House et al. *Cultural Influences on Leadership and Organizations: Project Globe. Advances in Global Leadership.* Vol. 1. JAI Press Inc., 1999, pp. 171–233.

Ambitious	Logical
Cautious	Orderly
Compassionate	Sincere
Domineering	Worldly
Independent	Formal
Individualistic	Sensitive

Smooth Criminals

Why "Good" People Do Bad Things

Why Good People Do Bad Things

Greatness of harm

Immediacy of consequences

Consensus Of wrong

Issue intensity

Proximity to Victim(s)

Probability of harm

Concentration of effect

- **New Studies Determine Which Social Class More Likely to Behave Unethically** (February 27, 2012)

- A series of studies conducted by psychologists at the University of California, Berkeley and the University of Toronto in Canada reveal something the well off may not want to hear.

- Individuals who are upper-class individuals are more likely to break the law while driving, more likely to exhibit unethical decision-making tendencies, more likely to take valued goods from others, more likely to lie in a negotiation, more likely to cheat to increase their chances of winning a prize and more likely to endorse unethical behavior at work.

- "The relative privilege and security enjoyed by upper-class individuals give rise to independence from others and a prioritization of the self and one's own welfare over the welfare of others--what we call 'greed,'"This is likely to cause someone to be more inclined to break the rules in his or her favor, or to perceive themselves as, in a sense, being 'above the law,'"

- That is the finding of new research published in February 2012 *Proceedings of the National Academy of Sciences*.

Moral Reasoning

- An important consideration is how one **thinks about** value-laden issues or ethical dilemmas.
- **Moral reasoning**: Process leaders use to make decisions about ethical and unethical behaviors.
  - *Manner by which leaders solve moral problems.*
- Value differences often result in different judgments regarding ethical and unethical behavior.
- Kohlberg offers that although the development of moral reasoning is invariant, not all individuals actually achieve the highest stages.

is that which is concretely rewarded.	get caught, you could give the drug back and not get much of a sentence."	didn't get much of a sentence, your wife would probably die while you were in jail and it wouldn't do you much good."
Conventional Level *Stage 3:* "Good" behavior is that which is approved by others; "bad" behavior is that which is disapproved by others.	"If you don't steal the drug, you'll never be able to look anyone in the face again."	"Everyone would know you are a thief."
Stage 4: "Good" behavior conforms to standards set by social institutions; transgressions lead to feelings of guilt or dishonor.	"If you have any sense of honor, you'd do your duty as a husband and steal the drug."	"If you stole the drug, however desperate you felt, you'd never be able to look at yourself in the mirror again."
Postconventional Level *Stage 5:* "Good" behavior conforms to community standards set through democratic participation; concern with maintaining self-respect and the respect of equals.	"If you don't steal the drug you'd lose your own respect and everyone else's too."	"We've all agreed to live by common rules, and any form of stealing breaks that bond."
Stage 6: "Good" behavior is a matter of individual conscience based on responsibly chosen commitments to ethical principles.	"If you didn't steal it, you might have satisfied the letter of the law, but you wouldn't have lived up to your own standards of conscience."	"Maybe others would have approved of your behavior, but stealing the drug would still have violated your own conscience and standards of honesty."

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42 The Role of Business in a Free Democracy

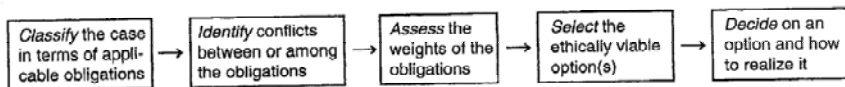| *Classify* the case in terms of applicable obligations | → | *Identify* conflicts between or among the obligations | → | *Assess* the weights of the obligations | → | *Select* the ethically viable option(s) | → | *Decide* on an option and how to realize it |

Figure 5

Five-step model for making difficult ethical decisions.

Audi

Guides for Ethical Decision Making

- *The Rights Theory*
  - The right to the truth about things that impact us.
  - The right to privacy.
  - The right to what has been contractually promised.
- *The Common Good Theory*
  - The good of an individual is inseparable from the good of the larger society.
- *The Fairness Theory*
  - An ethical action treats everyone equally, without showing either favoritism or discrimination against anyone.

Guides for Ethical Decision Making

- *The Utilitarian Approach*
  - All available alternatives should be evaluated and the choice should be the option that causes the greatest good (or the least harm) to the greatest number of people.

- *The Virtue Ethics Approach*
  - An action is ethical if it builds personal virtuous traits such as honesty, selflessness, and courage.
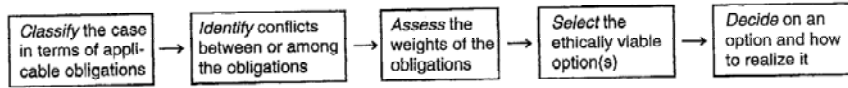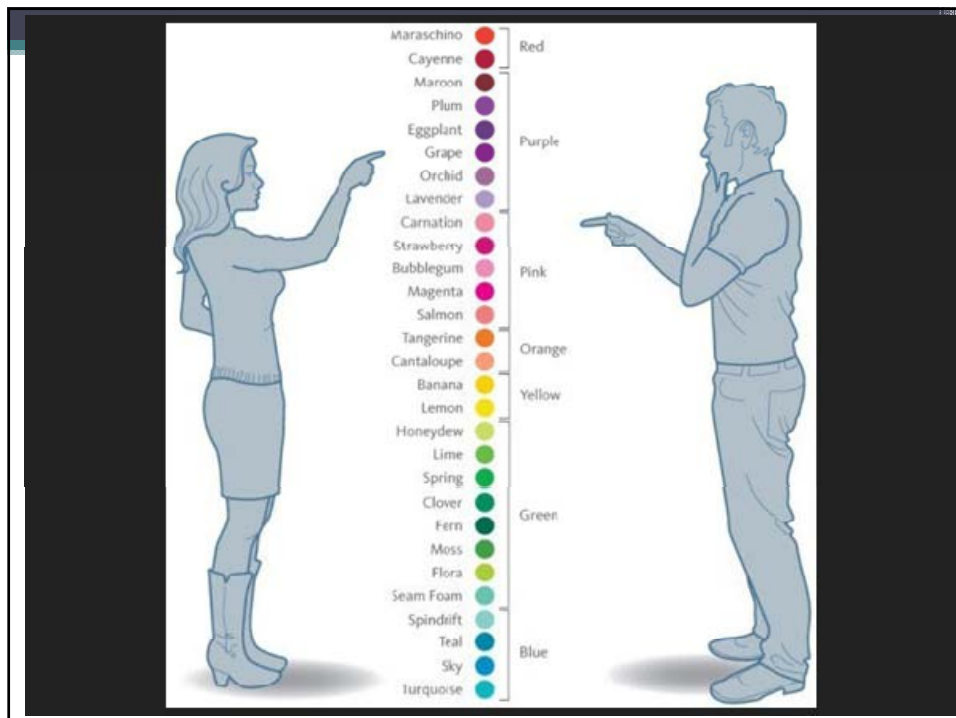
42   The Role of Business in a Free Democracy

Figure 5

Five-step model for making difficult ethical decisions.

Audi

Prima Facie Obligations (pp 31-32)

1. _Justice_: the double-barreled obligation (a) negatively, not to commit injustice and (b) positively, to prevent future injustices and rectify existing ones;
2. _Non-injury_: the obligation to avoid harming others;
3. _Fidelity_: the obligation to keep promises;
4. _Veracity_: the obligation to avoid lying (veracity and fidelity constitute kinds of fidelity understood as keeping faith—both 3. and 4. are _faithfulness to our word_);
5. _Reparation_: the obligation to make amends for wrong-doing;
6. _Beneficence_: the obligation to do good deeds for others, especially to contribute to their virtue (goodness of character), knowledge, or pleasure;
7. _Self-improvement_: the obligation to better oneself;
8. _Gratitude_: the obligation to express appreciation for good deeds toward us.
9. _Liberty_: the obligation to preserve and enhance human freedom;
10. _Respectfulness_: the category of obligations of _manner_ (roughly, of respectfulness).

Audi

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42   The Role of Business in a Free Democracy

Classify the case in terms of applicable obligations → Identify conflicts between or among the obligations → Assess the weights of the obligations → Select the ethically viable option(s) → Decide on an option and how to realize it
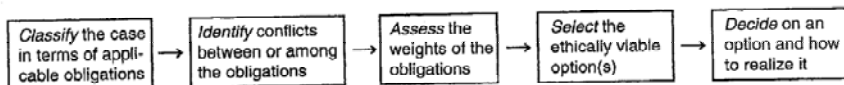
Figure 5

Five-step model for making difficult ethical decisions.

Audi

Definitions in the Ethical Leadership Literature

Unethical behavior – behavior that is morally unacceptable to the larger community Jones, T. M. 1991. Ethical decision making by individu-als in organizations: An issue-contingent model. *Academy of Management Review,* 16: 366–395.

Ethical leadership 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 et al., *OBHDP*, 2005: 120).

it still remains unclear what "**good leadership**" is. This state can be attributed to three fundamental characteristics of leadership ethics: the definitional endeavours related to the concept of leadership (1), the notion of "good" (2) and the paradigmatic divide between different concepts of good leadership (3). (Patzer and Vogtlin, 2010)

Although there may be no universal definition of **business ethics** most definitions focus on *evaluating* the moral acceptability of the actions of management, organizational leaders, and their employees (De Cremer and Tenbushel, 2012)

Defining **business ethics** is like trying to nail Jello on a wall (Lewis, 1985)

## Ethical Leadership - Brown et al. (2005; 2006)

Building Blocks	Content
• <u>Moral Person</u> • Being an ethical example	• Desirable characteristics such as being fair and trustworthy *idealized influence*
• Treating people fairly	• Interpersonal (respectful) and informational (why procedures are used) justice *interactional justice*
• <u>Moral Manager</u> • Actively managing morality	• Encourage normative behavior and discourage unethical behavior on the part of their subordinates using transactional efforts such as communicating about ethics and punishing unethical behavior *what's new*

Treating People Fairly - Exhibit normatively appropriate conduct through interpersonal relationships

- Stress the importance of two-way communication.
- Express own opinions, but also with listening to and getting along with others.
- Exhibit social responsiveness and caring by communicating to employees that their best interests are the leaders' primary concern

- Employees more willing to allow coworkers to express their opinions
- Avoid personal attacks on coworkers
- Demonstrate respect and consideration for coworkers' needs.

- Brown et al, 2005 *OBHDP*; 2006 *LQ*
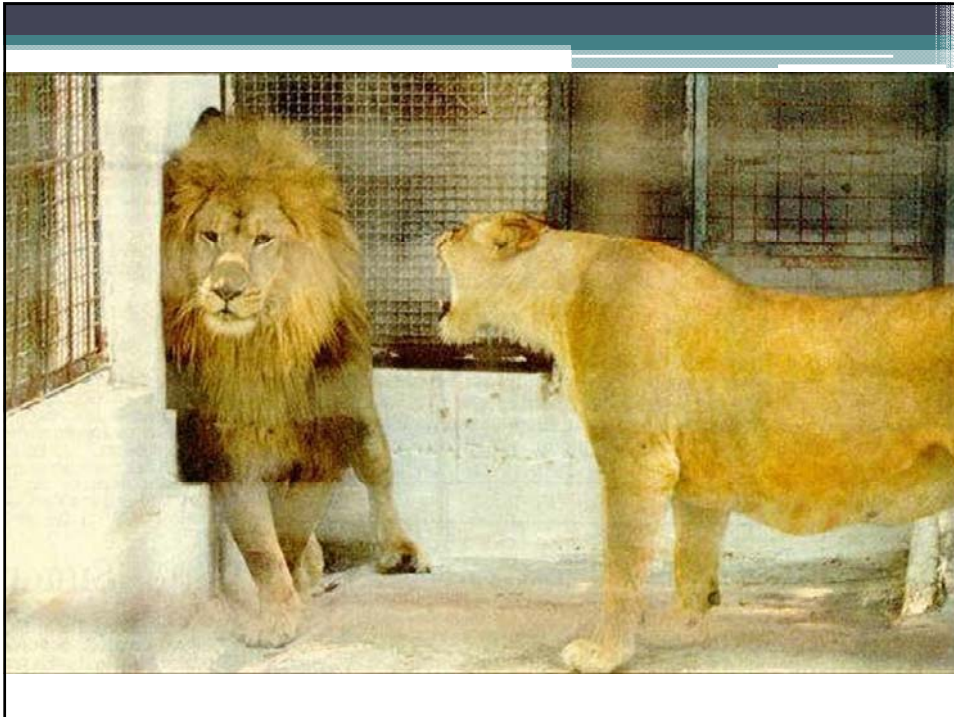
Moral Manager

- Transactional efforts of leaders to influence their subordinates to refrain from unethical and interpersonally harmful behavior.

  - These behaviors include:
- Disciplining employees who violate ethical standards
- Defining success not just by the results but also by the way they are obtained
- Setting an example of how to do things the right way in terms of ethics
- Asking "what is the right thing to do?"when making decisions
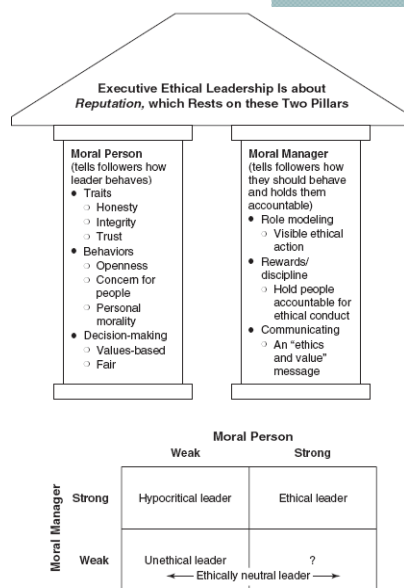- Discussing business ethics or values with employees.

FIGURE 2-1 Executive Ethical Leader Reputation Matrix

INFO: Three Forms of Leadership that Fall Short on Ethics:

- **Ethically Neutral Leadership:** occurs when there is a leadership vacuum when it comes to ethics. Persons in positions of power of influence neither promote nor actively work against ethical conduct.
- **Hypocritical Leadership:** when a person in a position of power talks about the importance of ethics, but then acts in an unethical manner.
- **Unethical Leadership:** weak moral persons and weak moral managers—not true "leaders"

WHO DISPLAYS ETHICAL LEADERSHIP, AND WHY DOES IT MATTER? AN EXAMINATION OF ANTECEDENTS AND CONSEQUENCES OF ETHICAL LEADERSHIP

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Two Construct Definitions

Moral Identity – Leaders whose moral identity has high self importance should act in ways that are consistent with common understandings of what it means to be a moral person

Moral Symbolization – Leaders who behave outwardly in ways that are consistent with how they view themselves---and thus are more likely to engage in ethical behaviors directed toward their employees

Mayer, Aquino, Greenbaum, Kuenzi, *AMJ* 2012, p153

Moral Identity

Listed here are some characteristics you might use to describe a person:

Caring, compassionate, fair, friendly, generous, helpful, hardworking, honest, and kind.
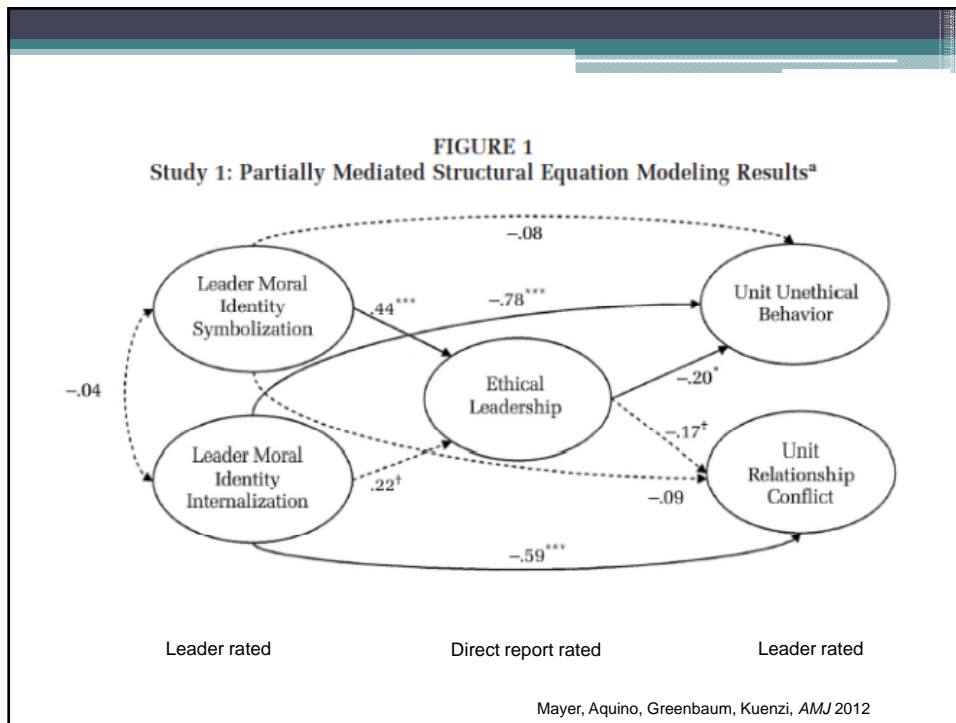
The person with these characteristics could be you or someone else. For a moment, visualize in your mind the kind of person who has these characteristics. Imagine how that person would think, feel, and act. When you have a clear image of what this person would be like, answer the following questions.

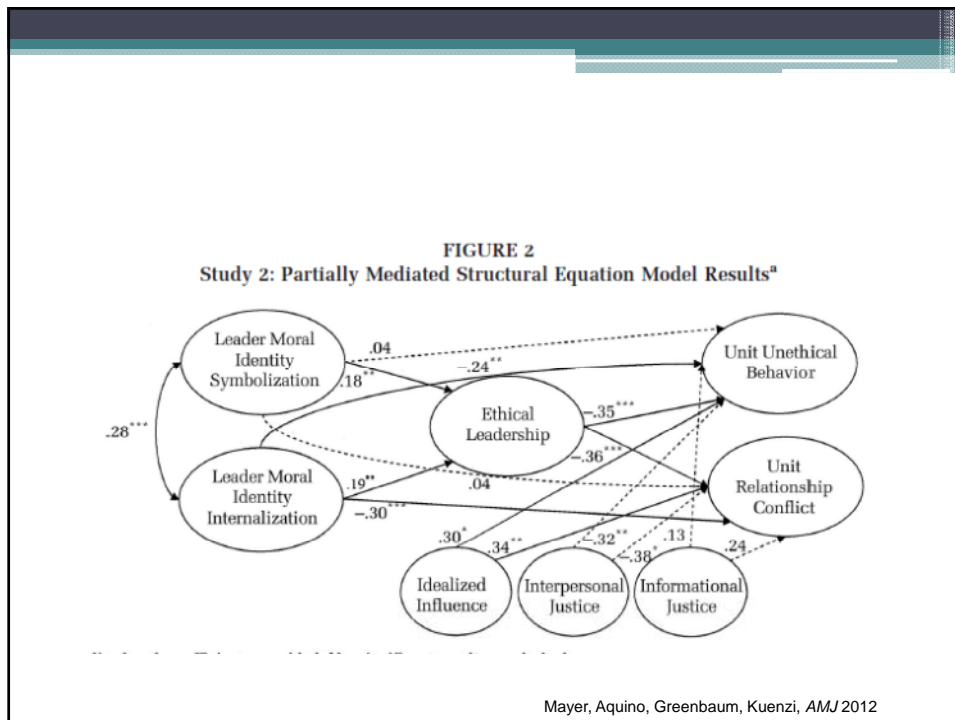**Moral Identity Symbolization ($\alpha = .83$; $\alpha = .84$)**

1. I often wear clothes that identify me as having these characteristics.
2. The types of things I do in my spare time (e.g., hobbies) clearly identify me as having these characteristics.
3. The kinds of books and magazines that I read identify me as having these characteristics.
4. The fact that I have these characteristics is communicated to others by my membership in certain organizations.
5. I am actively involved in activities that communicate to others that I have these characteristics.

Moral Identity Internalization ($\alpha = .87$; $\alpha = .78$)

6. It would make me feel good to be a person who has these characteristics.
7. Being someone who has these characteristics is an important part of who I am.
8. I would be ashamed to be a person who had these characteristics. (reverse-coded)
9. Having these characteristics is not really important to me. (reverse-coded)
10. I strongly desire to have these characteristics.

FIGURE 1
Study 1: Partially Mediated Structural Equation Modeling Results[a]

Mayer, Aquino, Greenbaum, Kuenzi, *AMJ* 2012

Ethical Leadership $(\alpha = .96, \alpha = .96)^1$

My department manager...

1. Listens to what department employees have to say.
2. Disciplines employees who violate ethical standards.
3. Conducts his/her personal life in an ethical manner.

4. Has the best interests of employees in mind.
5. Makes fair and balanced decisions.
6. Can be trusted.
7. Discusses business ethics or values with employees.
8. *Sets an example of how to do things the right way in terms of ethics.*
9. Defines success not just by results but also the way they are obtained.
10. Asks "what is the right thing to *do*?" when making decisions.

FIGURE 2
Study 2: Partially Mediated Structural Equation Model Results[a]

Mayer, Aquino, Greenbaum, Kuenzi, *AMJ* 2012

Some Next Steps

- Individual difference models (e.g. Field dependence)
- Role of followers (sanctions, challenges, training)
- Role of context (industry, regulation, change pace)
- Staged cognition models *JM*
- NeuroScience (socio-emotional)

8   Journal of Management / Month XXXX

Figure 1
A Cognitive Process of Stakeholder Punishment for Firm Misconduct

Universe of stimuli

Acts of misconduct

Noticing

Field of vision
P1: Personal interests   P2: Media preferences
P3: Need for cognition

Salience
P4: Misconduct in env't   P5: Related crisis
P6: Unrelated crisis   P7: Media marketability

Assessing

P8: Image of firm
P9: Cognitive busyness
P10: Spokesperson credibility
P11: Mood

Acting

P12: Moral Identity
P13: Opportunity cost
P14: Expected impact

Filtering process

Punished acts of misconduct

Barnett, *Journal of Management* in-press

Table 6
Prominent leadership theories reflected in *LQ* publications.[a]

Number of articles reflecting theory

Leadership Theories	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1990–1999 Total	%	2000–2009 Total	%
Trait theories											17	8.5	26	3.8
Leadership traits and attributes[b]	0	2	4	1	1	4	3	3	1	7			26	3.8
Behavioral theories											5	2.5	37	4.4
Behavioral approaches	0	2	1	0	1	1	3	1	1	2			12	1.8
Leadership skills[c]	7	0	1	1	2	2	0	1	0	0			14	2.1
Participative leadership, shared leadership, delegation and empowerment	0	0	2	0	0	0	4	1	2	2			11	1.6
Contingency theories											25	12.0	7	1.0
Contingency theories of leadership	0	1	2	1	0	1	1	0	0	1			7	1.0
Multiple level approaches											19	9.0	89	13.0
Multiple level approaches[b,c]	0	2	8	4	4	2	5	5	9	10			49	7.2
Dyadic relations and followership[c]	1	2	2	2	5	1	5	4	6	12			40	5.9
Leadership and information processing											16	8.0	38	5.6
Leader and follower cognition[c]	1	2	2	2	4	7	5	3	7	5			38	5.6
Neo-charismatic approaches											68	34.0	86	12.6
Neo-charismatic approaches[b]	3	5	6	9	10	8	8	6	13	18			86	12.6
Other prominent approaches											28	14.0	21	3.1
Power and influence[b,c]	2	0	2	0	9	1	0	0	3	4			21	3.1
Other approaches											50	25.0	33	4.8
Leadership and diversity[b]	0	0	2	3	2	1	1	0	2	2			13	1.9
Cross-cultural leadership[b]	1	1	0	1	1	1	2	2	0	2			11	1.6
Nature of managerial work	0	0	0	0	0	0	0	0	0	0			0	0.0
Other	4	0	0	1	2	1	0	0	1	0			9	1.3
New directions											29	14.0	303	44.4
Contextual influences on leadership[c]	0	2	3	4	2	4	3	5	6	9			38	5.6
Development and identification of leaders and leadership	10	0	1	2	3	10	2	1	2	6			37	5.5
Ethical, servant, spiritual and authentic leadership[c]	0	1	1	2	2	16	4	0	7	3			36	5.4
Leading for creativity and innovation[c]	0	0	2	10	8	1	2	1	5	6			35	5.2
Strategic leadership by top executives	2	0	0	2	4	0	3	2	8	8			29	4.3
Emotions and leadership[c]	0	0	9	1	1	2	4	1	2	7			27	4.0
Leadership in teams and decision groups[c]	1	1	3	1	3	2	7	2	5	3			28	4.1
Political and public leadership[b,c]	0	2	0	1	1	2	1	2	8	3			20	3.0
Complexity theory of leadership[c]	0	2	1	0	0	0	2	6	0	2			13	1.9
Leadership effects of task, technology, distance and virtuality	1	0	2	1	0	1	0	0	1	3			9	1.3
Ideological and pragmatic leadership	0	1	1	0	0	0	0	1	3	2			8	1.2
Destructive leadership	0	0	0	0	1	0	0	6	1	0			8	1.2
Leading change in organizations	0	0	0	0	1	2	0	0	0	3			6	0.9
New directions	0	0	0	2	1	0	0	1	3	1			9	1.3
New methods category											NA	NA	42	6.2
Measurement and methods for studying leadership[c]	3	1	8	4	3	4	4	4	5	6			42	6.2
Total	36	27	63	55	71	74	69	58	101	128	257	100	682	100

[a] Categories are not mutually exclusive.

Lowe & Gardner 2000, LQ – Ethical Leadership not a category

The Ethical, Servant, Spiritual and Authentic Leadership category reflects an eclectic mix of theories that emerged and/or rose in prominence during the past decade and share a common focus on the moral components of leadership (Avolio & Gardner, 2005; Brown & Trevino, 2006; Graham, 1991; Liden, Wayne, Zhao, & Henderson, 2008; Spears, Lawrence, & Blanchard, 2001). The focus of both Yearly Review articles (Avolio et al., 2004; Brown & Trevino, 2006; Fry, 2003) and special issues (Avolio & Gardner, 2005; Fry, 2005) on authentic and spiritual leadership clearly contributed to the emergence of this category. Given growing public (Dealy & Thomas, 2006; Halla, Blass, Ferris, & Massengale, 2004; Lebow & Spitzer, 2002) and scholarly (Ciulla, 2004) awareness of the interplay between leadership, ethics and accountability, we expect these perspectives will continue to receive increased theoretical and empirical attention.

Gardner, Lowe, et al, LQ 2010

Measuring Good-Cause Effects

People pay more for products from worthy vendors. How much more? By Raymond Fisman

ten the story at least half right. Take, for example, a Giving Works item advertising that 10% of proceeds will be given to charity. It's nearly 20% more likely to sell than its noncharity twin and at a price that's about 2% higher. (Items where 100% is donated to charity—hardly a sustainable business strategy—are nearly 50% more likely to sell and get bids that are 6% higher.)

Raymond Fisman is the author of *Economic Gangsters: Violence, Corruption and the Poverty of Nations* (with Edward Miguel) and is the Lambert family professor of social enterprise at Columbia Business School.

26 **FORBES** DECEMBER 28, 2009
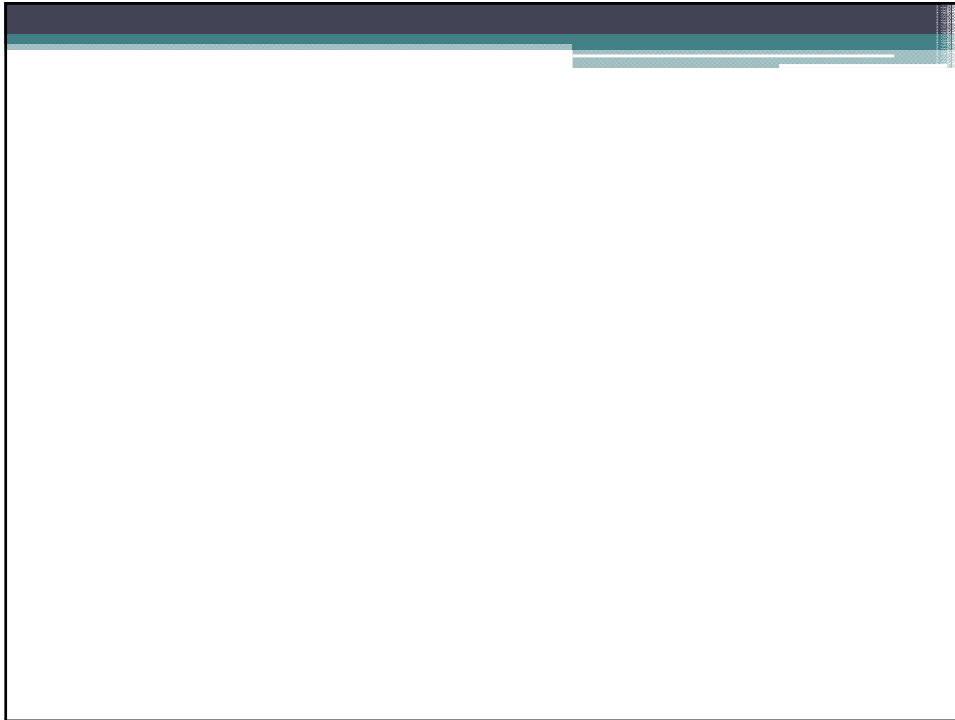
Personal Compacts

- *Formal* – basic tasks and performance requirements
- *Psychological* – mutual expectation and reciprocal commitment rooted in trust and dependence (boss is primary)
- *Social* – companies espoused values and the extent to which company practices reflect those...how the company really works (values in use)

Themes in Derailment Research

TABLE 8.2
Themes in Derailment Research

Four Enduring Themes	McCall & Lombardo (1983)	Morrison et al. (1987)	Lombardo & McCauley (1988)	United States (1993–94)	Europe (1993–94)
Problems with interpersonal relationships	Insensitive to others; cold, aloof, arrogant; overly ambitious	Poor relationships, too ambitious	Problems with interpersonal relationships, isolates self	Poor working relations	Poor working relations, organizational isolation, authoritarian, too ambitious
Failure to meet business objectives	Betrayal of trust; poor performance	Performance problems	Lack of follow-through	Too ambitious, lack of hard work	Too ambitious, poor performance
Inability to build and lead a team	Failing to staff effectively	Can't manage subordinates	Difficulty molding a staff	Inability to build and lead a team	Inability to build and lead a team
Inability to develop or adapt	Unable to adapt to a boss with a different style, unable to think strategically	Unable to adapt to a boss or culture, not strategic	Strategic differences with management, difficulty making strategic transitions	Unable to develop or adapt to or conflict with upper management	Unable to develop or adapt
Emergent themes	—	Too narrow business experience	—	Not prepared for promotion, narrow functional orientation	Not prepared for promotion, narrow functional orientation
Disappearing themes	Overdependent on advocate or mentor	—	Over-dependence	—	—

Source: E. Van Velsor and J. B. Leslie, "Why Executives Derail: Perspectives across Time and Cultures." *Academy of Management Executive* 9, no. 4 (1995), pp. 62–71.

A Five Step Model for Making Difficult Ethical Decisions (pp. 33-39)

1. What are my obligations in this case?
2. What conflicting (prima facie) obligations are in tension?
3. How weighty are the conflicting obligations?
4. What are the ethically viable alternatives?
5. What criteria principles will determine the course of action?

SMART Goals. SMART stands for **S**pecific, **M**easurable, **A**ssignable, **R**ealistic, and **T**ime bound. The term was invented by G.T. Doran way back in 1981 (Management Review, Volume 70, Issue 11(AMA FORUM), pp. 35-36).

DUMB stands for **D**oable, **U**ncompromising, **M**anageable, and **B**eneficial. Robert Whipple http://thetrustambassador.com/2012/03/04/dumb-goals/

Executive Leaders Create Ethical Culture

- **Ethical Culture:** a number of formal (e.g., codes and rules) and informal (e.g., behavior norms) systems that work together to support ethical conduct in the organization.
- Leaders must be moral people as well as "Moral Managers"
- Moral managers make ethics a priority by visibly modeling ethical conduct, communicating openly and regularly with employees about ethics and values, and by using the reward system to hold everyone accountable to the standards regardless of one's level in the organization or the level of productivity.

Questions for Discussion and Review

1. Why is it important for leaders to demonstrate ethical conduct?
2. What impact can a leader's position on ethics have on the culture of an organization?
3. Describe the dimensions of building a reputation for ethical behavior.
4. What is meant by the terms "hypocritical leadership" and "ethically neutral leadership"?
5. How does the Rights Theory compare with the Fairness Theory?
6. How does the Common Good Theory compare with the Utilitarianism Theory?
7. What theory of ethics prevails at the United Nations?

Strebel

Why do Employees Resist Change?

- Managers (strengthen business, new challenges career enhancement) and employees (disruption, intrusion, upset of balance) view change differently

- To drive change managers must put themselves in employee's shoes and understand how the personal compacts need to be renegotiated.

The Components of Organizational Alignment
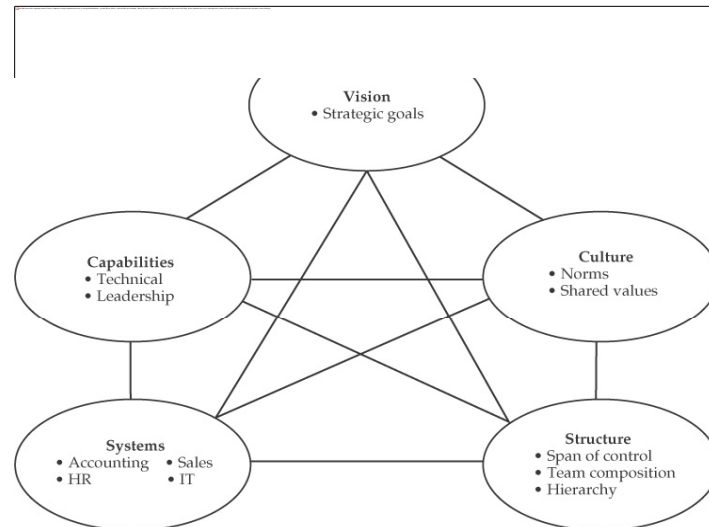
When Good People Do Bad Things

- Ways people with firm moral principles may behave badly without feeling guilt or remorse:

  ▫ Moral justification
  ▫ Euphemistic labeling
  ▫ Advantageous comparison
  ▫ Displacement of responsibility
  ▫ Diffusion of responsibility
  ▫ Disregard or distortion of consequences
  ▫ Dehumanization
  ▫ Attribution of blame

- Darley offers that ethical problems are almost inherent in systems that measure performance.