7 Ethical Leadership
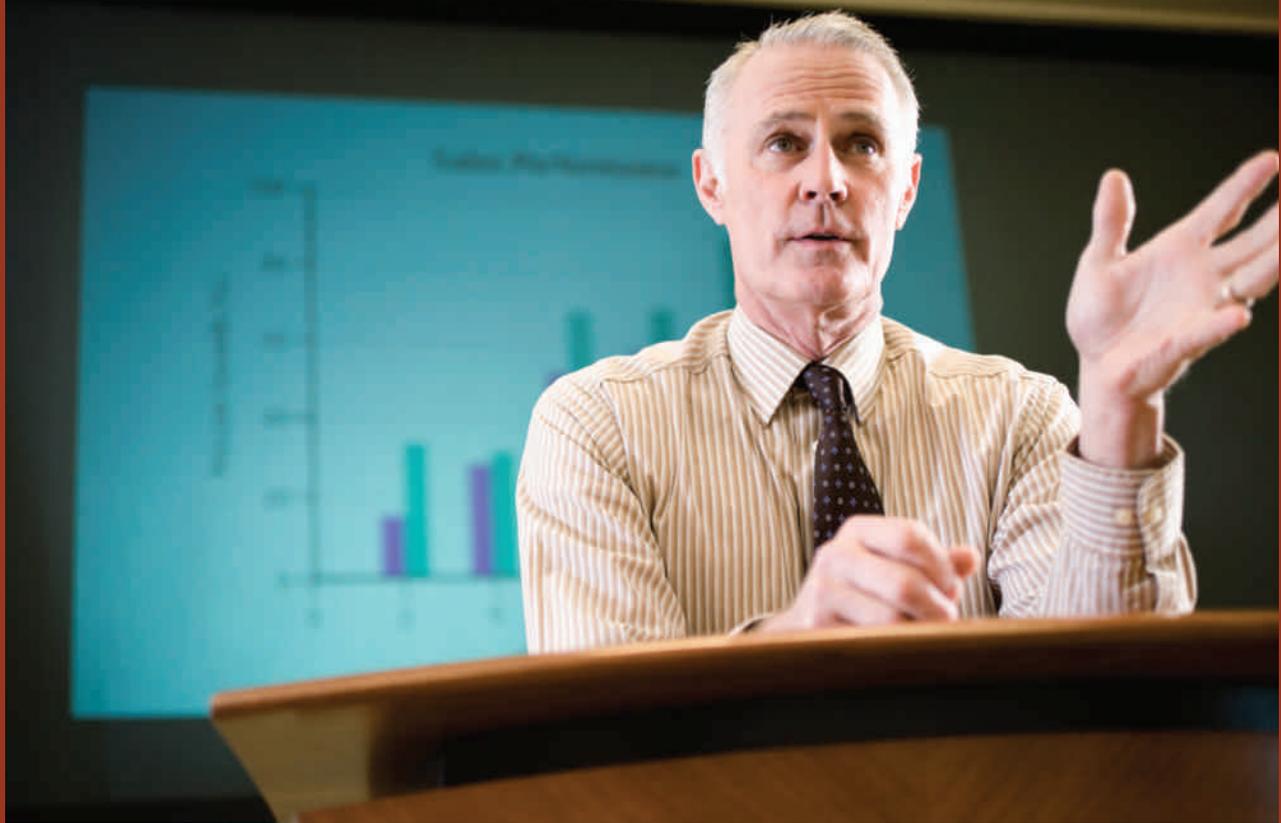
Learning Outcomes

After reading this chapter, you should be able to do the following:

- Assess the global challenges of ethical leadership and explain the importance of ethical leadership in a business organization.

- Analyze the characteristics of an ethical leader.

- Describe individual strategies to demonstrate ethical leadership in an organization.

Introduction

Alcoa Learns an Ethics Program Needs Ethical Leadership

Alcoa, the global leader in lightweight metals engineering and manufacturing, considers itself a values-driven company. The company's website states, "Our commitment to be open, honest and accountable, and to make decisions with the highest ethical standards, has guided the company and our employees since 1888" (Alcoa Inc., 2014, para. 1). In 1985, Charles W. Parry, chairman and chief executive officer (CEO) of Alcoa at the time, spoke of the importance of ethics in business. He stated, "Ethics is not something businessmen must violate in order to make a profit; it is something they must implement in order to prevent chaos" (p. 632). Parry indicated that all groups, managers, executives, shareholders, and workers should hold each other accountable for employing ethical practices.

In 2008, Alcoa's director of ethics and compliance described a focus on providing ethical leadership training of plant superintendents and supervisors, "because they set the example for the greatest number of employees" (Napsha, 2008, para. 8). They provided intensive ethics and compliance training to all management level employees in 44 countries, focusing on anti-corruption and gift policies. Their program took local laws into consideration, but instilled the company values regardless of location. Alcoa recognized that ethical challenges evolve as business becomes more complex and global, with rapid changes.

Despite its award-winning ethics and compliance program, Alcoa managers in Australia engaged in a bribery scheme to increase sales dating back to 1989. They set up an intermediary in Bahrain to secure business while making payments to the royal Bahraini family. According to investigations by the U.K. and U.S. justice departments, Alcoa Australia entered a scheme where a consultant set up several shell companies that invoiced the Bahraini aluminum company at inflated rates to fund kickbacks to the royal family (Miller, Grossman, Searcey, & Lublin, 2014). Through the consultant, tens of millions of dollars in bribes to senior Bahraini government officials exchanged hands over 20 years. In 2014, Alcoa and the company it controls, Alcoa World Alumina LLC, pleaded guilty to violating the Foreign Corrupt Practices Act and agreed to pay $384 million in fines.

The Alcoa scandal highlights the difference between management and leadership in an ethical business. **Management** relates to coping with complexity through processes of planning, goal setting, organizing, staffing, budgeting, and auditing. **Leadership** relates to the ability to inspire and motivate people to achieve goals (Kotter, 1990). As employees tackle more gray areas of conduct, it is important that leadership sets the example of good ethical behavior. Even though the Alcoa corporate office expressed concern of possible impropriety of the payment arrangement in Bahrain, managers of Alcoa Australia described the Bahraini business as "one of our most important 'blue ribbon' alumina accounts" (Miller et al., 2014, p. B1). The management of Alcoa Australia lacked ethical leadership.

The role of an ethical leader is to encourage behavior that aligns with the purpose, vision, and values of the organization; Chapter 1 focused on the roles that managers and supervisors play in promoting ethical conduct within an organization. Freeman and Steward (2006) describe ethical leaders as "first and foremost members of their own organizations and stakeholder groups" that "see their constituents as not just followers, but rather as stakeholders striving to achieve that same common purpose, vision, and values" (p. 3). Therefore, an ethical leader in a global business interacts with stakeholders locally and globally. Employees will

not embrace ethical standards if only the executives at headquarters care about corporate conduct and legal compliance (LRN, 2007). Managers in every location need to become ethical leaders who are capable of modeling responsible conduct, encouraging ethical and lawful conduct, and dealing with reports of violations and unethical conduct.

This chapter explores ethical leadership within an organization and the importance of becoming an ethical leader. It includes a discussion of the many benefits for organizations to develop ethical leaders, including increasing employee performance and reducing ethical lapses. This is followed by an analysis of ethical leaders' common traits and characteristics that foster employee trust. Examples of good and poor ethical leadership provide a basis for comparison. The chapter concludes with steps for becoming an ethical leader in an organization.

7.1 Importance of Ethical Leaders

Leaders play a critical role in creating the ethical culture of the organization because their actions determine what constitutes ethical behavior in the workplace. Employees perceive the ethical culture of an organization through experiences with their superiors. Therefore, some scholars describe ethical leadership in terms of behaviors. For example, according to Lu and Guy (2014), "Ethical leadership refers to the quality of guidance and role modeling provided by the worker's superior" (p. 10). Brown, Treviño, and Harrison (2005) define ethical leadership as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making" (p. 200).

Leadership behaviors are, in essence, the foundation of a company's culture. Chapter 1 highlighted the importance of an organization's ethical culture as a means of encouraging appropriate employee and supplier behaviors. An organization establishes an ethical culture when executive leadership takes the following actions, which are reinforced by managers and supervisors:

- Communicate ethics as a priority;
- Set a good example of ethical conduct;
- Keep commitments;
- Provide information about what is going on; and
- Support following organizational standards (Ethics Resource Center, 2013, p. 19).

This section explores the leadership styles of an ethical leader and benefits that come from developing ethical leaders within the organization.

Ethical Leadership Styles

There are many types of leadership styles, such as transactional leadership, servant leadership, authentic leadership, and transformational leadership (Maak & Pless, 2006; Yukl, Mahsud, Hassan, & Prussia, 2013). **Transactional leaders** attempt to influence others by offering monetary or recognition rewards for achieving outcomes. Transactional approaches are task-oriented, focusing on clear expectations and rewards. On the other hand, it has been found that transactional leadership fails when leaders are not able to deliver promised rewards (Bass, 1985). In addition, employees may take shortcuts to receive compensation. Therefore,

a transactional leadership style is more often associated with compliance that maximizes outcomes rather than modeling ethical behaviors (Groves & LaRocca, 2011).

Servant, authentic, and transformational leadership styles have a moral component and focus on employee development (Beck, 2014). **Servant leaders** consider first whether other people's needs are being met. Greenleaf (1970) describes a servant leader:

> It begins with the natural feeling one wants to serve, to serve first. Then conscious choice brings one to aspire to lead. That person is sharply different from one who is leader first. . . . The difference manifests itself in the care taken by the servant-first to make sure that other people's highest priority needs are being served. The best test, and difficult to administer, is this: Do those served grow as persons? Do they, while being served, become healthier, wiser, freer, more autonomous, more likely themselves to become servants? And, what is the effect on the least privileged in society? Will they benefit or at least not be further deprived? (p. 13)

Studies show that servant leaders exhibit characteristics of trust, empowerment, vision, altruism, intrinsic motivation, commitment, and service (Parris & Peachey, 2013).

Authentic leaders know their strengths and weaknesses and remain true to themselves without wavering. Avilio and Gardner (2005) describe authentic leadership in moral terms:

> . . . authentic leaders are anchored by their own deep sense of self; they know where they stand on important issues, values and beliefs. With that base they stay their course and convey to others, often-times through actions, not just words, what they represent in terms of principles, values and ethics. (pp. 329–330)

Therefore, authentic leaders act consistently with their values and beliefs when addressing difficult moral issues. Employees are more likely to adopt ethical behaviors of a leader who is perceived as genuine, thereby making authentic leadership an important component of an ethical organization (Verbos, Gerard, Forshey, Harding, & Miller, 2007).

Transformational leaders motivate others by appealing to morale and inspiring them to achieve greater outcomes. Transformational approaches are relation-oriented, focusing on collaboration to meet organizational goals. These types of leaders serve as role models who employees trust, develop shared visions and team spirit, stimulate innovation and creativity by encouraging open dialogue, and act as coaches who foster personal development tailored to the individual needs of each employee (Bass & Avolio, 1993). A transformational leadership style establishes clear ethical principles and guidelines that employees can use as a benchmark for recognizing values conflicts and realigning behavior.

Servant, authentic, and transformational leadership styles differ from transactional leadership in that they strive to empower employees to take an active role in meeting organizational goals and following organizational ethical principles (Kark, Shamir, & Chen, 2003). Transactional leadership seeks to influence employee behavior rather than empower them. Employee empowerment involves the belief that they have the ability to affect their work roles and work context (Spreitzer, 1995). Employees empowered to contribute to the development of

organizational ethics codes and policies are more likely to make decisions that align with these principles. Nike and Adidas AG maintained ethical labor standards at apparel factories in emerging countries by empowering supply chain managers to evaluate the labor practices of contract manufacturers and develop creative solutions to bring them up to the industry ethical standard (Arnold & Hartman, 2003). Empowered employees recognize their personal responsibility for individual decisions and hold their peers accountable for making ethical decisions (Parboteeah et al., 2010). Leadership styles that empower employees can foster an ethical culture within the organization.

Benefits of Ethical Leadership

The general expectation within organizations is that those at the executive level, such as the CEO, chief financial officer (CFO), and board of directors, are primarily responsible for establishing and enforcing ethical behavior. However, studies have shown that employees do not differentiate between the ethical leadership of executive leaders and frontline supervisors (Treviño, Weaver, Gibson, & Toffler, 1999). Individuals in leadership and management positions must have close working relationships with their direct reports in order to be ethical role models, which has prompted many organizations to consider developing all supervisors or group leaders as ethical leaders (Treviño, Weaver, & Reynolds, 2006; Walumbwa, Morrison, & Christensen, 2012). See *Business Best: Prudential Financial Develops Ethical Leaders* for an example of one company's approach to encouraging ethical leadership across the ranks.

Business Best: Prudential Financial Develops Ethical Leaders

Prudential Financial, Inc. is a leader in the global financial services market with more than 50,000 employees worldwide and operations in 38 countries and territories. The company consistently receives international recognition for its commitment to diversity and establishing a supportive workplace. *Fortune* magazine ranks Prudential Financial third on the 2014 World's Most Admired Companies list within the life and health insurance category. In the United States, 14 organizations have honored Prudential Financial for providing an inclusive environment for women, families, veterans, unrepresented populations, and employees with disabilities. International recognition for best employer includes awards in Poland, Brazil, Ireland, Mexico, Taiwan, and Korea.

Lee Ausburger, Prudential Financial's senior vice president and chief ethics and compliance officer in the law, compliance, and business ethics unit, is responsible for global ethics and compliance. He described the department's role as "developing, encouraging, and enforcing a high ethical environment across the company" (Jaeger, 2013, p. 63). Each business unit has an assigned ethics officer who reports directly to the unit's senior management in an effort to safeguard the integrity and accountability of ethical leadership within all departments of the company. Ausburger explained that "In this way, Prudential has somebody sitting at the elbow of every senior leader in our company ensuring that the integrity message and ethics accountability is real and vital and is front and center in their department and everything they do" (Jaeger, 2013, p. 63). At Prudential, staff located in local offices address

**Business Best: Prudential Financial Develops
Ethical Leaders** *(continued)*

country-specific regulatory issues. The company-wide focus is on anti-bribery, anticorruption, and personal securities trading regulations.

In a presentation at an Ethics & Compliance Officers Association conference, Augsburger (2012) outlined six ways that managers play an important role as ethical leaders in the organization:

- Establish and maintain tone at the top;
- Sustain corporate integrity;
- Make ethics locally relevant;
- Enhance managerial commitment to and understanding of company standards;
- Maintain consistency of messaging; and
- Provide tools and support to model ethical behaviors and address reported concerns.

The company encourages managers and supervisors to engage in ethical leadership by providing a formal ethics support structure that holds managers accountable for the ethics and compliance of subordinates, provides ongoing manager training and support, and conducts annual ethical leadership assessments. Managers receive special training in ethical leadership, which includes talking points for use with their employees and other communication tools. Evaluation of ethical leadership includes a manager's self-assessment, manager's assessment of employees, and employee opinion surveys of the ethical culture of the organization. Performance evaluations of managers and supervisors include how well they demonstrate a strong moral compass by exhibiting the following four behaviors:

- Stands up for what is right even when it is unpopular;
- Shows unwavering commitment to high ethical standards and integrity through words and actions;
- Acts in the best interest of shareholders, customers, and the company; and
- Takes personal accountability and expects the same from others.

Questions to Consider

1. How does Prudential Financial's ethics and compliance approach address the challenges of developing ethical leaders in a global business?
2. What more should Prudential consider to monitor the effectiveness of ethical leadership across the company?
3. How might the investments in developing ethical leaders alleviate the reputational damage from ethical lapses that escalate to public or regulatory scrutiny?

Employees have higher job performance when they feel that their supervisors and company executives pay serious attention to ethics. Ethical leadership with comprehensive ethical programs (tools and training) can minimize ethical and legal dilemmas for all employees. When employees are encouraged to report problems, they experience improved psychological well-being because they feel free to express discomfort about any misconduct they might witness. This, in turn, contributes to their commitment to the organization.

Employees are more likely to commit to an organization when they perceive that top management and their immediate supervisor are trustworthy, fair, and honest. Organizational commitment involves an emotional attachment between employees and their employers

that "influences whether they will remain or leave the organization, whether they accept the organization's values and goals, and how much effort they put forth on the job" (Philipp & Lopez, 2013, p. 305). Organizational commitment increases when employees feel valued and secure in employment. Ethical leadership can alleviate financial or job loss anxieties that would otherwise erode an employee's attachment to the organization. For example, research has indicated that ethical leadership increases employee pay satisfaction and organizational commitment, even when the relationship with the organization is short-term and for economic reasons (Philipp and Lopez, 2013; Ruiz-Palomino, Sáez-Martínez, & Martínez-Cañas, 2013). Organizational commitment, in turn, leads to enhanced employee performance and innovation. In a study of Chinese workers, Yidong and Xinxin (2013) found that employee perceptions of ethical leadership increase innovative work behavior consisting of the "generation, promotion, and application of new ideas intended in the work role, group or organization, which aims at improving organizational performance" (p. 443).

Ethical leadership provides advantages within and outside the organization. Benefits of ethical leadership include a pervasive ethical culture, fewer instances of ethical misconduct, and greater employee psychological well-being, job commitment, and performance. An ethical culture with strong ethical leadership provides shareholder and community confidence in the company. Therefore, ethical leadership is at the core of building trust and confidence in business (Seidman, 2004).

7.2 Characteristics of Ethical Leaders

What makes an ethical leader? Research has found that ethical leaders typically possess four general attributes relating to traits, behaviors, decisions, and encouragement (Resick, Hanges, Dickson, & Mitchelson, 2006; Treviño & Brown, 2004):

1. An ethical leader must exhibit a strong moral character and integrity.
2. He or she is altruistic and demonstrates respect for others.
3. The decisions of ethical leaders demonstrate a collective motivation that promotes team or organizational interests over self-serving interests.
4. Ethical leaders encourage ethical conduct in the organization through motivational incentives and consider integrity in compensation and promotion decisions (Johnson, Fleischman, Valentine, & Walker, 2012).

It is important to take into account whether employees perceive a manager as a moral person and as a moral manager. A **moral person** refers to an individual of honest and trustworthy character, who makes ethical decisions consistently and fairly. A **moral manager** is one who inspires ethical behaviors in others by setting standards, holding others accountable, serving as a good example, and establishing rewards to encourage ethical conduct. An ethical leader is strong in both dimensions, whereas an unethical manager is weak in both dimensions.

Employees tend to assess the ethical stance of their leaders through a skewed lens. People tend to hold beliefs about others based on experiences, which may influence their judgment of leaders (Messick & Bazerman, 1996). Workers' perceptions of ethical leadership within their organization depend on feelings of supervisor effectiveness, trust, and satisfaction with the supervisor (Brown et al., 2005). Employees tend to equate ethical leadership with **political skill**, or "combining social perceptiveness or astuteness with the capacity to adjust

one's behavior to different and changing situational demands" (Ferris et al., 2002, p. 111). Similar to ethical leadership, political skill depends on social relationships, and stresses social awareness, interactions, and influence. However, leaders with political skill have the ability to inflate an employee's perception of their manager's ethicality and may cause them to accept deviant behaviors (Harvey, Harris, Kacmar, Buckless, & Pescosolido, 2014). See *Checklist: Ethical Leadership Questionnaire* to assess whether a manager, supervisor, or team leader has the characteristics of an ethical leader.

Checklist: Ethical Leadership Questionnaire

Instructions: This questionnaire highlights the relevance of ethics to effective leadership. The term *unit* refers to the team, department, division, or company for which your boss is the formal leader, and the term *members* refers to the people in the unit who report directly to your boss. Please indicate how well each of the following statements describes your current boss by selecting one of the following response choices.

1. Strongly Disagree
2. Moderately Disagree
3. Slightly Disagree
4. Slightly Agree
5. Moderately Agree
6. Strongly Agree

__ Shows a strong concern for ethical and moral values.
__ Communicates clear ethical standards for members.
__ Sets an example of ethical behavior in his/her decisions and actions.
__ Is honest and can be trusted to tell the truth.
__ Keeps his/her actions consistent with his/her stated values ("walks the talk").
__ Is fair and unbiased when assigning tasks to members.
__ Can be trusted to carry out promises and commitments.
__ Insists on doing what is fair and ethical even when it is not easy.
__ Acknowledges mistakes and takes responsibility for them.
__ Regards honesty and integrity as important personal values.
__ Sets an example of dedication and self-sacrifice for the organization.
__ Opposes the use of unethical practices to increase performance.
__ Is fair and objective when evaluating member performance and providing rewards.
__ Puts the needs of others above his/her self-interest.
__ Holds members accountable for using ethical practices in their work.

Source: Yukl, G., Mahsud, R., Hassan, S., & Prussia, G.E. (2013). An improved measure of ethical leadership. Journal of Leadership & Organizational Studies, 20*(1), 38–48. Reprinted with permission from Sage Publications, Inc.*

Questions to Consider

1. Which behaviors are the most important for you to trust the ethical leadership of a supervisor, manager, or company executive?
2. Are there any descriptors in the list that are difficult to observe? How can a company measure the ethical leadership within the organization?
3. How does personal experience with a leader (e.g., work assignments, disciplinary actions) skew your assessment of his or her ethical leadership? Cite an example based on personal experience.

Freeman and Steward (2006) describe characteristics of an ethical leader based on scholarly business research and interviews with executives. This section examines each of the characteristics of ethical leaders in detail. Examples of good and poor ethical leadership highlight the importance of ethical leaders in maintaining an ethical culture.

Personify Organizational Values

"Can you walk the talk and talk the walk?" This phrase refers to an important characteristic of ethical leaders—leading by example. Freeman and Steward (2006) have stressed that "it is important for leaders to tell a compelling and morally rich story, but ethical leaders must also embody and live the story" (p. 3). The CEO's reputation for ethical behavior sets the tone for the entire organization. When an executive acts as though he or she is exempt from the organization's ethics, it sends a message that unethical conduct is appropriate (Steinberg, 2010). Treviño and Brown (2004) term those managers that espouse workplace ethics but have a weak reputation for personal moral character as hypocritical leaders. Managers who exhibit unfair and dishonest behavior create job insecurity among employees who recognize inconsistency between the organization's procedures and leadership behavior (Loi, Lam, & Chan, 2012). They may question the validity of company information and future career opportunities.

When a CEO has a reputation for unethical conduct, the board of directors is likely to remove the individual from office. American Apparel founder and former CEO Dov Charney's use of company funds for family travel and repeated allegations of sexual harassment caused the board to encourage his resignation in lieu of being fired (Kapner, 2014). Hewlett-Packard CEO Mark Hurd resigned in 2010 upon accusations of violating the company's sexual harassment policy and submitting fraudulent expense reports (Worthen & Lublin, 2010). Best Buy Co., Inc. CEO Brian Dunn resigned in 2012 for violating company policy by having an inappropriate relationship with a female employee. That same year, Lockheed Martin Corporation President and Chief Operating Officer Christopher Kubasik resigned upon disclosing a close personal relationship with a subordinate in violation of the defense contractor's ethics code ("Dov Charney joins troubled exec club," 2014).

In contrast, Anita Roddick, founder of The Body Shop International PLC, is an example of a leader who trusted that business could be run ethically in line with her environmental and social values (Hartman & Beck-Dudley, 1999). As a leader, she walked the talk as she championed fair trade, human rights, and environmental conservation. Roddick stated:

> I believe that one of the most effective means of communication is storytelling. . . . stories about products and stories about the organization. Stories about how and where we find ingredients bring meaning to our essentially meaningless products, while stories about the company bind and preserve our history and our sense of common purpose. (Maak & Pless, 2006, pp. 79–80)

The founder's ethical foundation permeates The Body Shop's culture. The company's head of corporate responsibility has stressed, "The Body Shop's integrity is based on what we do, rather than what we say. We ask ourselves what we can do that's different, and we will demonstrate our campaigns to our employees and customers" (Persaud, 2003, p. 37). Leadership by example is an important characteristic for an ethical leader.

Focus on Organizational Success

Ethical leaders demonstrate a collective motivation to promote team or organizational interests over self-serving interests. Spreier, Fontaine, and Malloy (2006) examined the effect of self-serving biases and stated, "If you believe too many executives think, 'It's all about me,' you're right. Research shows that an ethos celebrating individual achievement has been replacing other motivations, such as the drive to empower people, that are essential for successful leadership" (p. 72). A focus on personal ego and success can detract from achieving the goals of the organization. Leaders who exhibit narcissist traits that promote self-glorification and self-gratification are more likely to engage in unethical behavior (Hoffman et al., 2013). If misconduct occurs in an organization with a weak ethical culture, it may remain undetected and escalate into an ethical crisis. On the other hand, subordinates and peers in an organization with a strong ethical culture are less likely to perceive a narcissist leader as ethical.

There are numerous examples in which a leader placed personal gain and prestige over organizational performance. Tyco International's former CEO Dennis Kozlowski's use of company funds for a $6,000 shower curtain, $15,000 umbrella stand, and $2 million birthday party for his wife demonstrates an entitlement bias where leaders tend to give themselves a much larger share (Prentice, 2012). In 2005, Kozlowski began an eight and a half year prison sentence for grand larceny and conspiracy, falsifying business records, and violating business law. Weston Smith (2013), former CFO of HealthSouth Corporation and convicted for fraud, relayed how CEO Richard Scrushy "loved being in the spotlight at all times. . . . formed a band that traveled in style on one of the company's jets, and went so far as to tour in Australia following a ribbon-cutting at a new HealthSouth hospital" (p. 908). Scrushy later denied inflating earnings and asset values at HealthSouth of almost $2.7 billion.

A leader's definition of success may be an indicator of whether he or she intends to employ an ethical approach. Gentile (2010a) encourages broad, organizational goals in defining an individual's professional purpose rather than focusing on personal career advancement. Max De Pree, founder of office furniture company Herman Miller, Inc., promoted workforce participation and ethical leadership for the good of the organization. He said, "Ethics and leadership intersect in the common good. Leaders should subsume their needs to those of their followers and they must learn how to make a commitment to the common good. Finally, leaders should know how to bear, rather than inflict, pain" (Murphy & Enderle, 1995, p. 123).

Roddick created The Body Shop as a values-based company with a social mission. In her obituary, Tony Juniper, director of Friends of the Earth, wrote, "Anita did more than run a successful ethical business: she was a pioneer of the whole concept of ethical and green consumerism. There are quite a few business people today who claim green credentials, but none came anywhere near Anita in terms of commitment and credibility'' (Lyall, 2007). Jack Welch and Jeff Immelt, former and current CEOs of General Electric (GE), respectively, promote ethical leadership by connecting performance with integrity, stating at managerial meetings, "No cutting of corners for commercial considerations will be tolerated. Integrity must never be compromised to make the number" (Heineman, 2008, p. 31). GE defines the role of business as high performance with high integrity.

Find the Best People

Ethical leaders view finding and developing the best people as a moral imperative to care for their workforce (Freeman & Steward, 2006). Recruiting the best people involves taking ethics and character into account during the selection process. Recall the example of Zappos from Chapter 1. The company seeks employees who not only meet the technical requirements of the job but also demonstrate a strong moral character. During the interview process, the human resource department assesses the alignment of each candidate's personal values with the company's corporate values (Hsieh, 2010). The Body Shop's director of human resources, Caroline Waters, explained how the company's corporate social responsibility (CSR) priorities extend to its workforce. Training of new employees focuses on the values and core principles found in the company's mission statement. As the company expands internationally, the responsibility of embodying The Body Shop's ethical values rests on the local employees and their leaders.

The selection and termination of employees reflects the culture of the organization. The hiring and firing processes by the former CEO of Salomon Brothers, John Gutfreund, is one indicator of a lack of ethical leadership that led to the bond trading scandal of the 1990s. According to Sims and Brinkmann (2002), Gutfreund selected "ambitious, aggressive young people and gave them the chance to create new departments, new products and enjoy success they could not achieve at other firms" (p. 334). The hiring policy stressed success without consideration of ethical values. Dismissals of employees at Salomon Brothers were for vague and ambiguous reasons that created uncertainty on how to succeed at the company. Employees became more likely to engage in unethical conduct to survive in an aggressive and competitive company culture (Sims & Brinkmann, 2002).

In an interview shortly after his 2006 conviction for fraud, Ken Lay, CEO of Enron, expressed concern that the young, aggressive, highly educated employees the company attracted were bending rules and inventing new rules related to energy trading and distribution (Ferrell & Ferrell, 2011). Enron used an annual "rank and yank" performance review process in which the employees at the bottom 10% to 15% of the company faced losing their jobs. This process contributed to employee unwillingness to speak up about the inappropriate accounting entries that ultimately led to Enron's collapse (Beenen & Pinto, 2009).

Ethical leaders base compensation and promotion decisions on employee integrity, thereby rewarding ethical conduct. Consider a situation in which a coworker is lying to customers in order to make sales. An ethical leader would oppose the use of such practices to increase performance and refrain from rewarding the perpetrator with a bonus or recognition for exceeding sales quotas. If this did not occur, other employees would lose trust in their leader. They expect an ethical leader to hold everyone accountable for using ethical practices in their work.

The challenge for management is to measure ethical conduct. Performance evaluations can be subjective, and managers may not know that an employee was bending the rules. Some leaders seek input from peers, subordinates, and customers in evaluating employees. Others, like those at Prudential Financial, include self-assessments of ethical conduct. The goal is to make integrity a recognized part of employee evaluation to create a dialogue on expected ethical conduct.

Create Conversations About Ethics

Ethical leaders encourage deeper conversations about ethics, values, stakeholder principles, and societal expectations. When leaders talk about ethics and values, workers hold each other responsible and accountable for whether they are actually living the values. At The Body Shop, employees regularly debate whether packaging or product formulas are within the company's mission for social and environmental welfare. The managers describe conversations about ethical values as "almost second nature—it's what we do, but we also challenge each other on it" (Sinclair & Agyeman, 2005, p. 8). Conversations about ethics highlight alternatives and reinforce an ethical culture that instills pride in company employees. Research suggests that providing a platform for individuals to talk with colleagues about ethics can lead to decisions that are more ethical (Treviño, den Nieuwenboer, & Kish-Gephart, 2014).

Ethics placards on the wall or laminated values cards in wallets do not replace a two-way conversation about expectations for ethical conduct in the workplace. Recall the Enron scandal involving fraudulent accounting practices and an elaborate cover-up scheme detailed in Chapter 1. The company's stated core values were respect, integrity, communication, and excellence. Quotes such as the following appeared on telephone notepads distributed within Enron to highlight the core values of communication, even though bringing bad news to management was discouraged through their informal culture:

> "We do not err because truth is difficult to see. It is visible at a glance. We err because this is more comfortable." Alexander Solzhenitsyn

Despite these messages distributed through formal channels, it was the informal culture of the company that dictated employee behavior. As whistle-blower Sherron Watkins stated, "At Enron, we had a firm culture in place that emphasized making earnings targets no matter what, and I don't think any one person could have changed that culture" (Beenen & Pinto, 2009, p. 279).

James Burke, former CEO of Johnson & Johnson, is an example of an ethical leader willing to talk about ethics throughout the organization. During the 1980s, Burke made the decision to recall all Tylenol products at great financial cost upon learning of cyanide-laced Tylenol capsules in the Chicago area. The strong ethical culture of Johnson & Johnson derives from Burke's ethical leadership early in his tenure as CEO, when he held a series of challenge meetings. Held at branches around the world, the meetings provided a platform for managers to debate the company's long-standing credo and its values (Freeman & Steward, 2006). To prevent senior executives from becoming hypocritical leaders, Burke stipulated that they "either subscribe to the credo or remove it from the wall" (Treviño & Brown, 2004, p. 75). Johnson & Johnson administers a Global Credo Survey every two years to ask employees if the behaviors of their coworkers and managers represent company values. In 2012, the focus of the company's newly introduced leadership and development program was on conversations— "frequent and meaningful, formal and informal, conversations that fuel a culture of high performance" (Johnson & Johnson, 2014, para. 8).

Create Mechanisms of Dissent

Employees look for encouragement from leadership to voice concerns when conduct conflicts with ethical standards. To avoid ethical traps of obedience to authority, groupthink, and

conformity biases, employees must be able to object without fear of retaliation if an internal process or business decision is wrong (Freeman & Steward, 2006). Ethical leaders strive for an organizational culture where employees are comfortable pushing back. One approach is to ask a coworker or subordinate to act as a devil's advocate who scrutinizes decisions.

GE provides various channels through which employees can voice their concerns. An organization-wide ombudsperson/employee advocate system offers employees more than 600 neutral staff members to ask questions of and report violations to. Anonymous reporting mechanisms through e-mail and phone are also available. Employees contribute to an annual integrity review of the company's ethics infrastructure to uncover any risky business practices. In each department, a process termed *work-outs* encourages constructive critiques of business policy and direction. GE's former Vice President and General Counsel Ben Heineman remarked:

> My experience over many years was that these channels were rarely misused and did not create a climate of fear and backbiting. Reporting employees knew from long-standing company experience that their concerns would be handled independently, reviewed professionally, and decided fairly based on facts, not internal politics. Cheap shots wouldn't work. (Heineman, 2008, p. 94)

Understand the Values of Others

To encourage ethical behaviors in an organization, leaders must understand that each individual approaches a situation from his or her own unique ethical perspective, and that these differing viewpoints sometimes contribute to organizational conflict or cause employees to disobey directives. Freeman and Steward (2006) proposed that "Ethical leaders can understand why different people make different choices, but still have a strong grasp on what they would do and why" (p. 6). Understanding the values of coworkers or employees allows an ethical leader to express recognition of these values and evaluate how employees' values align with organizational values.

Feelings of **moral reproach** occur when employees perceive that their leader judges their values as morally unequal. Stouten, van Dijke, Mayer, De Cremer, and Euwema (2013) found that employees who sense moral reproach from a leader are more likely to engage in deviant behavior. Leaders who come across as morally judgmental make employees feel as though they are not trusted to do the right thing. Ethical leaders should discuss expected ethical standards with employees and create a dialogue regarding how employees feel about the application of these behaviors in their daily work.

GE recognizes that ethical leadership requires respect for people and local norms. Employees do not respond well to dictates of what to do; rather, they need to understand why ethical standards exist and why they are important to the company. Heineman (2008) proposes that companies address cultural differences when local practices conflict with the company's global norms. He recommends designing "programs that don't heap scorn on local culture (and, by implication, on our employees, their families, and their friends), but rather explain why those practices are unacceptable in a global company" (p. 84). A characteristic of ethical leaders is demonstrating respect for others.

Make Difficult Decisions

Ethical leaders do not avoid difficult decisions even when the potential courses of action are inconsistent with personal or organizational values. A leader who ignores the ethical considerations of a decision and focuses only on meeting organizational goals may come up with a simpler, more straightforward solution to a dilemma. However, the decision may not be ethically sound. Ethical leaders are courageous enough to demand consideration of all the ethical dimensions of a decision, regardless of the associated difficulties (Treviño, Brown, & Hartman, 2003). For example, Ecolab's management will turn down a customer sale if the terms are not within acceptable practices (See *Chapter Case: Ecolab: Encouraging Ethical Leadership in Global Sales*). As scholars Nonaka and Takeuchi (2011) stated, "Wise leaders make decisions only after they figure out what is good for the organization and society" (p. 64).

Employing ethical leadership does not mean ignoring business goals, but it does require moral imagination. In Chapter 6, moral imagination is defined as the "ability to imaginatively discern various possibilities for acting within a given situation and to envision the potential help and harm that are likely to result from a given action" (Johnson, 1993, p. 202). Moral imagination allows a leader to solve moral dilemmas in new ways without compromising integrity. A manager exhibits ethical leadership in resolving employee conflicts by considering all factors, ensuring due process, and viewing employees as part of their community (Moberg, 2003). Leadership and imagination enable decision makers to overcome challenges in making business processes comply with societal expectations for fairness, safety, and environmental consciousness.

Multinational companies must make difficult decisions when local practices and global standards conflict. For example, GE managers have been faced with determining how to sell ultrasound equipment in India and China, where the use of such technology to perform abortions of female fetuses is against the law. As illegal use of ultrasound equipment continues, GE sponsors an education program for customers, puts warning labels on the products, sells equipment only to certified physicians, and provides sales data to enforcement agencies (Heineman, 2008). In another situation, GE declined to allow the Chinese government to search employees' computers at its office in China for ties to an illegal religious organization. The local managers were able to convince officials that allowing such access violates the company's human rights policies (Heineman, 2008). In both examples, GE leaders showed moral imagination in addressing challenges without sacrificing company values.

Know the Limits of Values

Ethical leaders recognize that certain values have limits and that two values may conflict with one another. According to Freeman and Steward (2006), "ethical leaders have an acute sense of the limits of the values they live and are prepared with solid reasons to defend their chosen course of action" (p. 7). Being able to keep ethical values in the forefront along with organizational values of innovation, profitability, and viability is an important characteristic of ethical leaders. General Motors (GM) provides an example of the consequences of choosing profits over customer safety when failing to replace a fatally flawed ignition switch in Chevy Cobalts

due to cost, estimated by some reports as less than $1 (Nelson, 2014). The decision not to correct a known hazard of the automobiles cost lives, creates financial burdens, and damages GM's reputation. On the other hand, the pharmacy chain CVS removed cigarettes and other tobacco products from stores, amounting to a loss of $2 million in revenue (Herper, 2014). The decision reflects leadership's consideration of customer health over profit.

Frame Actions in Ethical Terms

Ethical leaders view their role as maintaining the integrity of the company by fostering a culture that encourages ethical behaviors and decisions. They do this by modeling correct behavior, discussing ethics with their subordinates, and framing business situations within the ethical dimensions. "The way a business situation is framed may subtly—and subconsciously—influence the cognition and behavior of those experiencing it" (Clark, Quigley, & Stumpf, 2014, p. 29). For example, a GE senior manager entered into a distribution contract with a new vendor without completing required due diligence. The manager cited competitive pressures as other firms were courting the vendor. By making the decision to use an unreliable vender, the manager lacked the ethical leadership expected by the company. GE fired the manager, citing a strict policy that "competitive pressures never justify compromising integrity and 'one strike and you're out'" (Heineman, 2008, p. 32). Ethical leadership makes ethics an essential and central part of the organizational decision-making process.

Ethical leadership integrates ethics into all decisions and considers multiple stakeholder concerns, thus redefining the primary purpose of business. Roddick of The Body Shop felt that business should be a force for social good first, followed by a secondary orientation toward bottom line profits (Hartman & Beck-Dudley, 1999). Similarly, GE considers that the role of business is to fuse high performance with high integrity. GE leadership embeds integrity into all business processes including manufacturing, engineering, marketing, sales, sourcing, and research and development by making the business unit leaders responsible for ethical conduct (Heineman, 2008). Companies seek employees who understand how ethics relate to business, incorporate ethics in decision making, and exhibit ethical leadership with integrity and trustworthiness.

7.3 Becoming an Ethical Leader

What does it take to become an ethical leader? According to Gentile (2010a), it requires that individuals examine their behavior and values by reflecting on "who [they] really are and what [they] say and do" (p. 109). Self-assessment begins by asking questions about personal and professional goals, defining their impact as a leader, and determining how they would like to feel about themselves and their work. (See *Checklist: Becoming an Ethical Leader* for more things to consider in becoming an ethical leader.) Ethical leaders accept responsibility for the effects of their actions on customers, suppliers, employees, communities, and other stakeholders.

Checklist: Becoming an Ethical Leader

To enhance your effectiveness as an ethical leader, how would you respond to the following questions?

1. What are my most important values and principles?
2. Does my calendar—how I spend my time and attention—reflect these values?
3. What would my subordinates and peers say my values are?
4. What mechanisms and processes have I designed to be sure that the people who work for me can push back against my authority?
5. What could this organization do or ask me to do that would cause me to resign for ethical reasons?
6. What do I want to accomplish with my leadership?
7. What do I want people to say about my leadership when I am gone?
8. Can I go home at the end of the day and tell my children (or a loved one) about my leadership, and use my day's work to teach them to be ethical leaders?

Reflect on how you answered these questions.

a. How do your responses reflect a commitment to examine your own behavior and values? Did you delve deeply into each question or answer minimally?
b. How do your responses demonstrate a willingness to accept responsibility for the effects of your actions on customers, suppliers, employees, communities, and other stakeholders? How do your responses show a willingness to accept the effect of your actions on yourself?

Source: Freeman, R.E., & Steward, L. (2006). Developing ethical leadership. *Charlottesville, Virginia: Business Institute for Corporate Ethics.*

Companies seek leaders that exhibit behaviors of an ethical leader. Consider the behaviors that the Prudential Financial executive committee expects of their leaders. The first two behaviors: "Stands up for what's right even when unpopular" and "Shows unwavering commitment to high ethical standards and integrity through words and actions" require ethical leaders to articulate and embody their values and those of the organization. The next two behaviors: "Acts in the best interest of our shareholders, customers, and the company" and "Takes personal accountability, and expects the same from others" highlight the imperative that ethical leaders be accountable for their actions. Finally, pulling from transformational leadership, an ethical leader needs to be a coach to others and guide them in ethical decisions inherent in business.

Voicing Values

An ethical leader is a role model for appropriate behavior, though it may be difficult at times. Organizational pressures for financial performance, group pressures for conformity, and personal career aspirations provide rationalizations to overlook the ethical issues of a business decision. Ethical leaders must recognize ethical traps for misconduct and develop ways to overcome them (see Chapter 6). Ethical leadership requires a commitment to learn and

practice skills to demonstrate integrity and voice values. Gentile (2010a) identifies several ways to develop confidence in voicing values in business:

1. Learn from experience. Reflect on the factors contributing to successfully integrating integrity and performance, and those factors that inhibit ethical conduct.
2. Learn from others. Watch and learn from other managers who express values in the workplace and lead ethical groups.
3. Create a support system. Look for mentors or peers who can informally assist with leadership challenges.
4. Develop two-way conversations up line and down line in the organization. Encourage questioning assumptions that an action is appropriate or even warranted.
5. Learn to express difficult messages. Strive to express concerns calmly and without passing judgment.
6. Know yourself and play to your strengths. Consider how your personal and professional purpose, risk profile, personal communication style, and self-image can influence how you lead others.
7. Practice. Seek opportunities to demonstrate integrity and voice values in business or personal organizations.

To speak up and follow ethical standards takes courage. A leader who makes courageous decisions in tough situations conveys to others the importance of upholding ethical principles. For example, James Burke displayed great courage in his decision to recall Tylenol products at a great financial loss to the company (Murphy & Enderle, 1995). **Moral courage** is action to preserve values and ethical principles. Kidder (2009) identified three elements of moral courage: 1) "a commitment to moral principles," 2) "an awareness of the danger involved in supporting those principles," and 3) "a willing endurance of that danger" (p. 7). What must a leader do to have the courage to stand up for ethical values? Table 7.1 offers a series of steps for achieving moral courage in an organization.

Table 7.1 Seven steps to moral courage

1. Assess the situation	Ask if the situation requires moral courage. What are motives to stand up? What is the central concern?
2. Scan for values	Contemplate the values that characterize the situation. Consider the pervasiveness and sensitivity of the situation.
3. Act on conscience	Identify one or two key values that are most relevant to the situation. Dismantle right vs. wrong arguments that might cause inaction. Recognize situations where there is only one outcome.
4. Understand the risks	Assess the dangers involved in acting and failing to act. Three risks include ambiguity, exposure, and loss.
5. Endure the hardship	Do I have the confidence to endure hardship? Four sources of confidence are experience, character, faith, and intuition.
6. Avoid the inhibitors	Identify and circumvent the ethical traps that challenge moral courage.
7. Learn moral courage	Three approaches: Develop skills for expressing morality and moral courage. Seek mentors or exemplars of moral courage. Practice moral courage.

Source: Kidder, R.M. (2009). Moral courage. *New York: Harper Collins e-books.*

The first step involves recognizing a situation where acting ethically requires actions that may generate some risks. Emotional signals prompt individuals to pay attention to feelings about moral issues. Sekerka, McCarthy, and Bagozzi (2011) found that managers express worry, loneliness, fear, shock or surprise, and hurt feelings (often stemming from a sense of betrayal) when dealing with an ethical situation. The second step requires evaluating which organizational values or ethical standards are lacking in the situation. By assessing the significance of the issue, a leader can determine the most effective form of expressing concern. When multiple values and ethical standards conflict, the next step is to determine which values are most important to the situation. Anticipating arguments regarding the importance of each value can help to provide convincing counterarguments.

The fourth step is to assess the risk of acting or not acting. Challenges that should be considered are ambiguity (confidence in facts), exposure (visibility within the organization), and loss (peril to income and personal reputation). To gain the trust of others, an ethical leader must be able to openly state his or her reasons for acting and have the endurance to stand by those reasons, which is the fifth step. Four sources of endurance include experience (relying on past actions), character (values), faith (in doing the right thing), and intuition (gut impulses are reliable). The sixth step relates to the ethical traps that can inhibit the moral courage to stand up for integrity. Finally, an ethical leader can learn from the situation to develop skills to apply moral courage. Three modes of learning include debriefing and discussing the ideas of moral courage, documenting pathways for moral courage that others can follow, and providing opportunities to further practice speaking up in the organization.

Accountability

Ethical leaders hold themselves accountable to high ethical standards by acknowledging and taking responsibility for their mistakes. By being accountable, they earn the right to hold others accountable for their integrity performance as well. Therefore, ethical leaders must understand how to portray attitudes that demonstrate their own accountability as well as how to hold others accountable for their actions.

Such attitudes include credibility, transparency, and responsibility (Turk, 2012). Credibility comes when leaders consistently follow through by doing what they say they will do—walking the talk. If they cannot follow through on their word, they explain to their employees and others what happened without excuses. Accountable leaders demonstrate transparency by sharing information, communicating their plans and decisions, and keeping both their managers and direct reports informed. They communicate clear goals for themselves and their team, along with performance measurement, monitoring techniques, and avenues for providing feedback. Accountable leaders think about the consequences of an action in advance, take responsibility for their actions and mistakes, learn from their mistakes, and accept responsibility for the mistakes of their employees.

Before accepting accountability for a task or project, managers and employees should look at the following features that encourage accountability:

- Clear expectations with specific, measurable, attainable, realistic, and time-constrained goals;
- Adequate resources (financial, technical, and human) assigned to complete the job, including access to required stakeholders;

- The personal competence (ability, skill, and knowledge) and authority to perform the task; and
- Fair and equitable consequences for both success and mistakes.

Ethical leaders foster a culture of accountability for their employees. They must ensure that all employees have a clear understanding of what they are accountable for, how it is measured, and the rewards or consequences for specific outcomes. A leader must earn the employee's trust and respect, and understand that employees may be reluctant to admit mistakes. Leaders must make clear which behaviors or actions can be learning opportunities and which are grounds for termination. Recall GE's "one strike and you're out" policy for compromising integrity to achieve financial performance. Turk (2012) provides questions to ask to determine whether an organization has a culture of accountability:

- Are poor performers ignored, transferred, or promoted?
- Are there goals at every level, and are they publicized?
- Is performance execution measured or only business results?
- Are individuals and teams recognized and acknowledged?
- Do people hide from responsibility?
- Are problems and conflicts avoided?
- Do priorities compete?
- Are values ignored or taken for granted?
- Is there an atmosphere of change resistance?
- Are people punished for their mistakes? (p. 46)

Being an ethical leader within an organizational culture that prioritizes accountability can be particularly challenging. Individual leaders should focus their efforts on establishing an ethical culture within the functional units for which they are responsible. The leader sets the tone for his or her team's morale and commitment to integrity.

Coaching

Coaching is one of the most powerful mechanisms a leader can employ to reinforce the organizational values and an ethical culture (Treviño & Brown, 2004). The role of the leader as coach involves facilitating development, enabling learning, and supporting individuals and teams in achieving their objectives (Maak & Pless, 2006). The leader as coach fosters collaborative interaction, open communication, and constructive conflict resolution. An ethical leader encourages all employees to express concerns or seek advice to promote an ethical culture. Transformational leaders develop skills to coach others to act with integrity and in line with organizational ethical standards.

An important dimension of coaching is providing employees with constructive suggestions for improvement. There must be a climate of trust and respect in order for them to be receptive to changing behavior in response to feedback. If they perceive that they are being evaluated or judged, employees may become defensive or resistant to change. They may feel moral reproach if they sense that a leader looks down on their ethics. When the feedback involves a sensitive issue that an employee may not want to hear, the message becomes difficult to deliver. For example, what is an appropriate way to correct an employee who is being

disrespectful to a coworker? Hicks (2011) recommends the following steps for formatting the message so that positive change can occur:

1. "Describe behavior, not intention." Avoid attributing reasons for the unethical behavior.
2. "Be specific." When possible, give examples of the inappropriate behavior and explain how it seems to violate ethical standards.
3. "Avoid global labels." Refer to the person's behavior, not their worth as an individual with labels such as *uncaring*, *unethical*, or *racist*. Labels may be perceived as judgmental and could generate a defensive response.
4. "Immediacy is key." Provide feedback as close to the event as possible, but delay if you are experiencing anger toward the employee or you need more information.
5. "Focus on behavior that can be changed." Some behaviors are so habitual that change would require costly and lengthy interventions. Discuss with the employee ways to change the behaviors.
6. "Never give feedback when you are angry." Anger prevents a climate of trust and openness. If the intention is to coach the employee on changing behavior, take time to work through strong emotions about the situation before meeting. (p. 85–86)

Being a coach or mentor requires learning best practices for helping others to become responsible and productive employees. Ventriello (2007) offers tips to managers for effectively mentoring peers or subordinates in the workplace:

- "Share your knowledge and experience freely; otherwise . . . you will provide very little value as a mentor."
- "Make time to mentor. Before work, after work, during lunch, or whenever possible to minimize distractions."
- "Give your staff projects that push them beyond their comfort zones. This allows them to learn, grow, and avoid boredom. It elevates team capabilities overall."
- "Allow for do-overs. Projects with long timelines are best for this. Remember that do-overs are not failures, but are part of the learning process."
- "Do not just give assignments—explain how they should be done and why."
- Good mentors should never ask, "Why are you asking me a question?"
- "Protect your team. Share accountability with them and never expose their inadequacies in public."
- "Give credit where credit is due. Step back, be proud, and let others enjoy their successes."
- "Instill trust." If someone you mentor tells you something in confidence, keep it confidential, unless it is harmful to others or the company.
- "If you are mentoring somebody, be prepared to set him or her free." You may mentor someone who moves on to a better position in another division or another company. Just remember—you must have done something right. (pp. 67 and 84)

Source: Ventriello, M. (2007). Overcoming the fear of mentoring. Proofs, 90*(5), 67–84. Reprinted with permission from Michael Ventriello, owner of Ventriello Communications LLC.*

Coaching employees to make ethical decisions in the workplace incorporates all of these best practices. It involves providing employees with opportunities to learn through challenging projects that require moral imagination to solve dilemmas without compromising integrity. Mentoring relationships encourage conversations on ethics and demonstrate

ethical behavior. Coaching requires leaders to focus on meeting organizational goals rather than for personal gain. Successful coaching enables employees to become ethical leaders, thereby fostering an ethical culture within the organization, minimizing risks of misconduct, and building employee, customer, and shareholder trust in the company.

Summary & Resources

Chapter Summary

The role of an ethical leader is to encourage behavior that aligns with the purpose, vision, and values of the organization. Leadership styles influence ethical behavior. Transactional leaders attempt to influence others by offering monetary or recognition rewards for achieving outcomes. Transformational leaders, on the other hand, motivate others by appealing to morale and motivation to achieve greater outcomes.

Leaders play a critical role in creating an ethical organizational culture, which determines what constitutes ethical behavior in the workplace. Ethical leadership provides advantages within and outside of the organization. Benefits of ethical leadership include a pervasive ethical culture, less ethical misconduct, and greater employee psychological well-being, job commitment, and performance. An ethical culture with strong ethical leadership provides confidence and instills shareholder and community trust in the company.

Ethical leaders exhibit integrity and strong moral character. They are altruistic and demonstrate respect for others. An ethical leader promotes team or organizational interests over those that are self-serving. They encourage ethical conduct in the organization through motivational incentives and consider integrity in compensation and promotion decisions. There are many examples of corporate founders and CEOs who are exemplars of ethical leadership, such as Anita Roddick (The Body Shop), Max De Pree (Herman Miller), James Burke (Johnson & Johnson), Tony Hsieh (Zappos), and Jack Welch (General Electric). There are also many examples of leadership lacking ethics and integrity, such as Dov Charney (American Apparel), Dennis Kozlowski (Tyco), and Richard Scrushy (HealthSouth).

Becoming an ethical leader entails developing such practices as voicing values, being accountable for actions, and coaching others in making ethical decisions. To speak up and follow ethical standards takes moral courage. Three elements of moral courage are: 1) a commitment to moral principles, 2) an awareness of the danger involved in supporting those principles, and 3) a willing endurance of that danger. Ethical leaders hold themselves accountable to high ethical standards by acknowledging and taking responsibility for their mistakes.

The role of the leader as coach involves facilitating development, enabling learning, and supporting individuals and teams in achieving their objectives. Coaching is one of the most powerful mechanisms that leaders can employ to reinforce organizational values and an ethical culture. Successful coaching develops employees to become ethical leaders, thereby fostering an ethical culture within the organization, minimizing risk of misconduct, and building employee, customer, and shareholder trust in the company.

Key Terms

authentic leader An individual in a position of power who knows his or her strengths and weaknesses and always remains true to himself or herself.

leadership The ability to inspire and motivate people to achieve goals.

management The function of coping with complexity through the processes of planning, goal setting, organizing, staffing, budgeting, and auditing.

moral courage Action to preserve values and ethical principles.

moral person An individual of honest and trustworthy character, who makes ethical decisions consistently and fairly.

moral manager An organizational leader who inspires ethical behaviors in others by setting standards, holding others accountable, setting a good example, and establishing rewards to encourage ethical conduct.

moral reproach Employee perception that their leader judges their values as morally unequal.

political skill A leadership style that combines social perceptiveness or astuteness with the capacity to adjust one's behavior to different and changing situational demands.

servant leader An individual in a position of power whose first consideration is whether other people's high priority needs are met.

transformational leader An individual in a position of power who motivates others by appealing to morale and inspiring them to achieve greater outcomes.

transactional leader An individual in a position of power who influences others through monetary or recognition rewards for achieving outcomes.

Critical Thinking and Discussion Questions

1. Think about the people you consider to be the most ethical leaders in an organization you currently belong to (work, school, community, or otherwise). What qualities do they possess that make them particularly effective? Does the list of ethical leaders represent ethnocentric or stereotypical beliefs that could skew your assessment?
2. Consider a company or organization where you have sought employment or where you would like to seek employment in the future. Analyze the company's website for an indication of CEO support of an ethical culture and leadership. What questions could you ask in a job interview to uncover the degree to which ethical leadership permeates throughout the organization? Would you be able to work for a company where leaders were unethical or ethically neutral?
3. Do you see yourself as an ethical leader at work, home, school, in the community, or elsewhere? Why or why not? What could you do to improve being a role model for others?
4. Imagine you are the newly assigned ethics officer of Alcoa, the company discussed in the Chapter introduction. Assess the challenges of ethical leadership in a global environment. Write a plan for developing ethical leaders in the global company to avoid unethical decisions and actions.

Case Study: Ecolab: Encouraging Ethical Leadership in Global Sales

A chemical company providing products and services to the food preparation industry would have many opportunities for ethical misconduct, especially when sales occur in over 160 countries. This is the case for Ecolab, the global leader in cleaning, sanitizing, food safety, and infection prevention products and services. With more than 14,000 direct sales and service staff, Ecolab assists customers worldwide in the food service, food and beverage processing, hospitality, healthcare, government and education, retail, textile care, commercial facilities, and vehicle wash industries.

Ecolab (n.d.) admits to being an aggressive competitor in the industrial cleaning industry, even including a section in its culture statement saying, "Ambitious and aggressive, driven and determined, enthusiastic and energetic, we cultivate the opportunity to compete" (para. 4). International sales have been a part of Ecolab's growth since its entry into Canada in 1955 and Swedish subsidiary in 1956, with customer service capabilities in over 160 countries today.

CEO Doug Baker stresses that ethical leadership is fundamental to Ecolab's business model. The company creates a climate that is conducive to ethical actions in the sales force by establishing an industry expectation of honesty, integrity, and commitment to serving customers. Often, employees will look to the CEO for guidance on strategic priorities communicated through internal and public venues. According to Baker, "living by my personal moral code is one of the key reasons I have this job" (Lennick & Kiel, 2005, p. 4). He also stresses organizational ethics in speeches that include language such as:

> . . . our teams and our customers are counting on us to do real things for them, not theoretical things, and to make a difference where it counts, and it's our people that do it. Now, importantly, our people are tied together by a culture. And it's an inherited culture, and it's really the strength of the company, and why I get to stand here today, and it's a legacy that goes back a long way. (Baker, 2007, para. 8)

This message cascades throughout the leadership and country managers around the globe. In an effort to foster an ethical culture, managers receive ethics training, access to tools, and are monitored to ensure they are making ethical choices. To communicate tone from the top, all employees directly receive a letter from Baker. His message reinforces that ethical conduct is an Ecolab philosophy, regardless of where business is conducted. As one manager stated, "People want to be known to senior management for the right reasons. They are afraid of being the one that got the company in trouble and their name would be known to senior management for all the wrong reasons" (S. Erickson, personal communication, March 12, 2010). The culture encourages salespeople to include their manager and the legal department if an ethical issue arises. While Ecolab is very customer focused, losing a customer for the right reason (price, ethics) is encouraged, as the company has learned from experience that customers return when they realize the quality of Ecolab's service.

While Ecolab salespeople work in an aggressive culture, they also strive to perform their jobs in an ethically sound way because it makes good business sense. When salespeople at Ecolab say they are going to do something, the expectation is that they will deliver on that promise. By being honest, fair, and following through on promises, the sales force maintains the trust of its customers for repeated sales.

(continued)

Case Study: Ecolab: Encouraging Ethical Leadership in Global Sales *(continued)*

Jane, an Ecolab salesperson in the United States, developed a relationship with a new client for a global contract. The account was substantial and could greatly enhance the company's revenues as well as Jane's compensation. With a signed purchasing contract in hand, she closed the deal. Shortly thereafter, the client asked Jane for specific sales information, stating that it was a standard procedure for purchases. The request entailed restating the quantities and costs on the invoice that differed from the original purchase order. Something did not feel right to Jane. In all of her sales experience, she had never received such a request from a client.

Adapted from Gonzalez-Padron, T. (2011). Ecolab Inc.: How a company encourages ethical leadership. In D. D. Warrick & J. Mueller (Eds.), **Learning from real world cases—lessons in leadership** *(pp. 41–48). Learning from Real World Cases—Lessons in Leadership: Rossi Smith Academic Publishing.)*

Discussion Questions

1. Given the stance of Ecolab leadership, how should Jane handle the client's request for additional sales documentation? What would be the possible outcomes of providing the requested documentation to the client?
2. In what ways does a strong ethical position affect the conduct and culture of an organization?
3. What are some of the possible consequences internally and externally of not taking a strong ethical position?
4. What are some things Ecolab does to encourage ethical conduct?
5. What are the characteristics of an ethical leader? How can they influence responsible behavior in an organization?

Suggested Resources

The Aspen Institute Business and Society Program

http://www.aspeninstitute.org/policy-work/business-society

Business Roundtable Institute for Corporate Ethics

http://www.corporate-ethics.org

Ethisphere Institute

http://www.ethisphere.com