

The Concept of Ethical Leadership in Organisations

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The ethics of business practice and leadership in organizations has once again fallen under the spotlight in organisational practices. Over the past decade the spectacular collapses of Enron, WorldCom in the United States and HIH Insurance in Australia have raised questions of not only governance practices in corporations but also the notion of ethical leadership. The business leadership practices of corporate high fliers such as Kenneth Lay and Jeffrey Skilling of Enron, and Bernard Ebbers of WorldCom as well as Ray Williams and Rodney Adler who were involved in Australia's largest corporate collapse of the HIH group, once again put into question the concept of ethics in leadership, particularly in regard to unethical business practices and narcissistic leadership approaches (De Vries, 2004, 1985; Maccoby, 2004, 2000). The contention of this paper is that ethical leadership practices are a foundation stone for developing sound leadership practices aimed at building enduring organizations and businesses. The paper will identify a concepts of contemporary leadership practice, the nature of ethical leadership, the nature and stages of development of ethical decision making – the prime arena of ethical leadership within the organisational context, and finally the paper will outline the principles that support ethical leadership as well as final conclusions to be drawn.

Field of Research: Ethics; Leadership; Organisation Behaviour

1. Ethical Leadership

Ethical behaviour and effective leadership are intertwined and inseparable. In fact, meaningful leadership that in the long run counts for something - must be accompanied by character. Recent research by Goffee and Jones (2000) highlights effective leaders selectively show weaknesses and reveal their differences, use intuition well, practice tough empathy in connecting and truly caring about employees. Collins' (2001) research identifies humility, professional behaviour and drive as characteristics of leadership in high performing corporations. Empirical research appears to confirm that the leader who acts ethically and professionally will ultimately succeed and the leader who lacks an ethical foundation will ultimately fail (Butcher 1997).

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1.1 What is Leadership?

Leadership can be considered as influence directed towards others, in a given situation, in order to obtain specific goals. Leadership is a dynamic relationship between leaders and followers, and affects a work group's activities towards goal setting and achievement (Robbins et al. 2004).

Leadership can also be interpreted at two levels. The first is the locus of those decisions that determine the basic direction of an enterprise. Such authority may be vested in a top individual, a dominant group or the board of directors. The second is that leadership may be exercised at functional, departmental, or divisional levels. In other words, leadership is not necessarily a concept that is limited to the manager or owner of the business. Leadership as a concept is therefore intimately bound up with ideas of responsibility and accountability of behaviour. However the focus of literature surrounding leadership is normative in nature- addressing what leaders do rather than who they should be. Such literature reflects the dichotomy between the political (power) aspect of leadership and its clear moralism. Much of the organisational behaviour literature on leadership seems to focus upon the tactical and personality dimensions of successful leadership i.e. Hersey and Blanchard's situational theory, Vroom contingency approach etc., (Robbins et al. 2004; McKenna, 1999).

These approaches are usually concerned with ways in which the individual can increase their power bases and influence so as to control the actions of others, thus then often made link to French and Raven's power bases typology (Minkes, Small and Chatterjee, 1999, p. 327). Freeman (1991) suggests that a problem with this traditional leadership literature is that it focuses on power relationships- how to acquire more and to exert influence- rather than attention to moral relationship that exists between leader and follower. Sergiovanni (2001) establishes a relationship between the concept of leadership, followership and power and morality. He suggests that whenever there is an unequal; distribution of power between two people, the relationship becomes a moral one. Leadership involves an offer to control. The follower accepts this offer on the assumption that the control will not be exploited. In this sense leadership is not a right but a responsibility

1.2 Ethical Leadership

Ethical leadership relates to the clarity of vision and long-term consistency in pursuing the vision. Strategy and ethics therefore go hand in hand. "Strategy is concerned with purpose and values and so is ethics" (Connock and Johns, 1995, p.3). Ethical leadership is the first and foremost in influencing ethical organisational behaviour; it is not the corporation itself that exerts moral responsibility but rather the individual members of the corporation (Ritchie,

1996). Brown et al. 2005,p.120) 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” Lucas and Anello (1995) suggest that ethical leadership involves a connection between ethical thought and action. Linking moral reasoning to action is an imperative in leadership. Leaders’ and followers’ character is defined by actions and behaviours, not simply the values that are espoused. McCoy (1985) suggests that leadership is vital to breakthrough ethical cynicism and is the most essential element of a successful development of an ethical culture. Thus ethical behaviour must begin at the strategic level, a point emphasised by Trevino and Nelson (1999) who identify that leadership is crucial to the ethical behaviour and culture of an organisation as integrity or the lack of it, flows from the top down.

The inclusion of ethics as part of the leadership function is often criticised, from the view that the business of managers and business leaders is to maximise returns to shareholders and not to impose their ethical values on the company at its commercial expense (Friedman, 1970). This is akin to the notion of agency theory that employees and managers are limited to actions and decisions that are goal directed (Dellaportas et al. 2004). This is also consistent with the notion of bounded rationality which suggests managers and leaders are restricted in their attempts to make rational decisions by the complexity associated with a decision (Child, 1986; Daft, 2005) Some business analysts argue that ethics or more principled approaches to leadership is not sustainable due to global competition and the need for flexibility leaders and that such ethical strategies reduce business opportunities.

This competes with an alternative moral view of leadership from the perspective of natural law and the Kantian traditions, which argues that leaders should follow the requirements of ethics (Minkes, Small and Chatterjee, 1999, p. 327). As Moss Kanter (1989) has identified managers and leaders do in fact have standards, both explicit and implicit, of what is appropriate to do or not to do. In addition while business ethics has always been important from a social and moral point of view, it has also become a pragmatic requirement in the corporate sector. The high concern with efficiency strategies place an even greater emphasis on trust than did the adversarial-protection business practices of the traditional corporation (Minkes, Small and Chatterjee, 1999).

Trust is key factor in the development of the leader follower relationship as evidenced by research on leader follower relations by Goffee and Jones (2002) and also supported in the concept trustworthiness and empathy competences in the Emotional Intelligence competence framework of Goleman, Boyatzis and McKee (2002). Northouse (2001) further identified that ethical practice is central to leadership due to the nature of the

relationship between follower and leader challenging the argument of agency. A leader must influence and engage with followers to accomplish organisational goals, and it is often the way in which that engagement occurs as to the level of trust that develops, hence the importance of role modelling.

1.3 Leadership and Ethics

Recent theorists have suggested that a virtue based approach focuses upon the moral quality of the person and can inform an ethic of leadership. From the time of Aristotle, theorists have argued that of all the virtues, prudence represents the linchpin of political judgment and that any theory of leadership needs to develop an account of prudence (Minkes, Small and Chatterjee, 1999, p.327).

Leadership entails ethics because leaders have responsibilities. Persons in positions of leadership make a difference. They are able to bring about changes in behaviour through their influence, which would not have occurred without their presence and actions (Dobel,1998). According to Francis (2000) leadership is crucial to ethical behaviour. Being in a position of power, a leader is able to have influence out of proportion with their individual worth.

The ethics of responsibility requires leaders to attend to the consequences of their actions (Weber, cited in Minkes, Small and Chatterjee, 1999, p. 327). Their first responsibility, however, resides in what Adam Smith called self-mastery. All virtues and the personal capacity to live up to promises, obey the law, and follow directives depend upon this primary moral capacity (Smith, cited in Minkes, Small and Chatterjee, 1999, p. 327). This suggests that people in positions of responsibility, such as leaders of organisations, have an obligation to control their passions and overcome temptations. Without this basic self-discipline they could abuse their power for their own purposes. Thoughtless, rash, or impulsive actions could harm or exploit those who depend on the leader or cause the leader to fail in performing vital responsibilities.

As Mintzberg (1990) has identified, the actions of effective managers and leaders should be based on reflection, not driven by reactive emotions. When internal or external stimuli affect leaders, they should have the self-control not to react instantly. Without self-command moral life remains impossible (Smith, cited in Minkes, Small and Chatterjee, 1999, p. 327). Lucas and Anello (1995) suggest that the journey of ethical leadership begins with an examination of personal values and an ongoing reflection of personal core values. Self-mastery, however, only lays the groundwork for ethical leadership.

2. Ethical Leadership and Organisations.

Many leaders in organisations espouse ethical values and, on occasion, ensure that significant resources are allocated to the development of integrity systems, typified by the introduction of corporate codes of ethics. Unfortunately this can often have little impact on the behaviour of individuals within the business. We can identify many reasons why attempts to develop ethical culture fails. According to Newton (1995) it is often the senior levels of the organisations that also need to accept responsibility for this failure. Weiss (1994, 268-269) suggests that it is a responsibility of the executives to develop an appropriate ethical culture within an organisation. They have the responsibility to start the process, ensure that it is adequately resourced and that it supported and maintained. Ferrell, Fraedrich and Ferrell (2005) and Trevino and Nelson (1999) concur identifying that leadership, structure, selection systems, orientation and training programs, rules, policies, reward systems and decision making processes all contribute to culture creation and maintenance of an organisation's culture.

2.1 Leaders and the Establishment of Corporate Values

According to Weiss (1995) ethical principles and practices in business start with top leader's expressed, shared and implemented values. The corporate culture then embodies these values and practices. Hosmer (1987) contends that it is the senior executives of the organisation, which define and espouse the organisation's beliefs and norms. This is consistent with most organisational behaviour theory, which identifies that one of the sources of organisational culture is the beliefs/values of the founders/leaders of an organisation (Robbins et al. 2004). In the case of large companies this could be identified as the Board of Directors. This seems to emphasise the responsibility of the Board with respect to the development of ethical culture.

According to Campbell and Tawadey (1992) the leader moulds the organisation's value system through the creation of a philosophy. Trevino and Nelson (1999) highlight that in surveys of practising managers, honesty and competence emerge as the most important qualities identified as essential to good leadership. Kouzes and Posner (2002) in a similar examination of most respected capabilities of leaders in the US, identified honesty as the most valued leadership characteristic. Leadership is crucial to the organisation's ethical culture, as integrity flows from the top, down.

A consistent theme, which emerges in virtually all writings on institutionalising ethics, is the importance of ethical principles and support at the strategic level. Powers and Vogel (1980) point out that management finds its *raison d'être* in organisational purpose and that corporate goals determine the

general direction and criteria of business judgments, hence the importance of the corporate ethos (Hoffman and Fredrick, 1995).

2.2 Leaders as Ethical Role Models

What is important is what top managers are seen to do, more important than what they may actually do. What top managers are seen to do will reinforce a particular corporate culture. This in turn will determine the way lower level personnel act and the way the organisation as a whole responds when ethical dilemmas occur.

According to Goodpaster (Freeman, 1984 p. 103) the institutionalisation of ethics depends first and foremost on leadership conviction expressed in action. Petrick and Quinn (1997, p. 28-29) identify that managers and leaders can unwittingly engage in a variety of role related acts that either enhance or diminish ethical climate. These include:

- a) non-managerial role- actions of personal gain or self interest outside the interests of the firm,
- b) managerial role failure relates to degrees of competence
- c) managerial role distortion which are identified as unethical acts which give the firm short term advantage but displaces direct cost and responsibility to those outside the firm and
- d) managerial overexertion, which include strict adherence to the letter of the current law (internal organisational and societal), which violate the spirit of the law.

Ethical leaders must model desired behaviour. Policies must be enforced consistently for them to mean anything to the organization and its individuals. When unacceptable behaviour occurs, regardless of what policy may have been in the past, the present policy must be applied to take action, investigate, document facts, pursue the case to its conclusion, and follow up on the situation to be sure it is not recurring. There is another, very practical reason why ethics are essential to strong leadership. That is because ethical behaviour is key to establishing the trust and loyalty that are at the base of all effective leader follower relationships (Bethel, 1999, p. 36).

Bethel, (1999) states that a leader who combines high ethics with a genuine concern for others, personal competence and fairness in the exercise of power, sends a clear message to others, and in doing so establish trust. But when professed standards and actual performance do not match, when they do not send a "clear sound," they lack authenticity, confuse our followers and set bad examples. Without trust, the contract between leaders and followers collapses and the ability to lead, to inspire, to make a difference, is diminished. But a long-term investment in high ethics builds and reinforces the foundation on which an organization is built.

Ethical leaders have a significant role to play in implementing an ethical culture that is referred to as clarifying the values. The leader's challenge is to ensure a high degree of congruence between an organisation's guiding beliefs and the employee's daily beliefs, ie. changing rules and feelings about everyday behaviour. Furthermore, leaders should be able to persuade an organisation to change and adopt the new ethical culture. Consequently, empowerment of employees is a major requirement of modern business leaders. Kouzes and Posner (1987, p. 302) explained this by saying that leaders who could not personally adhere to a firm set of values, could not convince others of the worthiness of those values. They argued that leaders demonstrate their commitment to a consistent set of expectations by clarifying meaning, unifying constituents and intensifying actions. This process, repeatedly followed, earns and sustains credibility over time (Minkes, Small and Chatterjee, 1999, p.327).

2.3 Ethical Cynicism and Leadership

McCoy (1985) suggests that leadership is vital to breakthrough ethical cynicism and is the most essential element of a successful adoption of a Code of Ethics. If employees do not perceive senior managers to be complying with ethical policy, they may tend not to comply themselves.

The key to being an effective ethical role model for employees is to demonstrate consistency between one's ethical philosophy and ethical behaviour. The dominant core values of the firm's culture are formulated at the top and the authority structure of the firm begins at the top. Thus ethical behaviour must begin at the strategic level. This point is emphasised by Trevino and Nelson (1999) who identify that leadership is crucial to the ethical behaviour and culture of an organisation as integrity or the lack of it, of flows from the top down. A truly profound statement as history has shown that employees of an organisation will follow the actions of senior management, irrespective of the existence of a code of ethics or a code of conduct.

According to Petrick and Quinn (1995) when considering leaders in relation to followers, emphasis is placed on five variables:

- (i) follower behaviour
- (ii) power relations
- (iii) leader member exchange
- (iv) transactional interactions and
- (v) transformational interactions

With regards to the first relationship, leaders influence the behaviour of followers by communicating what needs to be done, providing feedback on performance and acting as role models for followers (Petrick and Quinn, 1995, p.215).

Organisational cynicism is a negative attitude towards an organisation's management and to the organisation itself based on the belief that management will consistently fail to meet employee expectations. Organisational cynicism incorporates employee expectations about managerial competence in running the business and dealing with people and management with integrity. When managers fail to uncover, meet and or exceed employee expectations, alienated followers become organisational critics. The consequence can include the constrained use of legitimate power because of discredited authority; reduced commitment to organisational change, reduced organisational citizenship behaviour and increased behavioural hostility at work (Petrick and Quinn, 1995).

Instrumentality is the subjective belief a person has about the relationship between performing an act and receiving an outcome. A variety of learning theories including classical conditioning, reinforcement theory and Bandura's social learning theory explain what people will lead people to the attainment of desired behaviours. Bandura's social learning theory suggests that behaviour to achieve desired outcomes is driven by the desire of an observer to model the behaviour of persons deemed worthwhile, even to the extent of self-reinforcement in line with the learning role model. For leaders this provides the challenge to identify, develop and broadcast role model behaviours that enable persons to emulate desirable behaviour (Petrick and Quinn 1995, pp 216).

2.3.1 Equity theory and expected behaviour

Equity is the perceived standard whereby groups and individuals ought to receive rewards consistent with the effort, quality and quantity of the effort they produce. The ratio relationship between a key reference person's inputs and outputs should approximate one's own ratio relationship in order to promote satisfaction. If these ratios are not equal, the reward structure is perceived unfair. In the face of perceived inequity employees may alter their inputs, engage in sabotage, withhold information defy management directives (Petrick and Quinn 1995, pp 218).

Ethical leaders need to ensure outcome, procedural and systematic justice in all reward decisions is crucial to achieving work satisfaction and organisational commitment (Petrick and Furr, 1995 cited in Petrick and Quinn 1997). If the leaders want to build a high-performance community at work, he or she must ensure organisational justice (Lindsay and Petrick 1997 cited in Petrick and Quinn, 1997).

Connock and Johns suggest that driving benefit from ethical leadership will only happen if words and deeds are integrated. Dissonance generates disillusionment, cynicism and alienation. Worse it encourages short-term calculative responses conveying no ethical consistency but rather focusing on

values such as personal survival, political ascendancy and tactical teamwork (1995, p.184).

2.4 Ethical Perception by Leaders

A crucial factor in determining the impact of ethics in an organisation is the perception of the leaders with respect to two issues. a) the purpose of organisations and b) the awareness and understanding of ethics and morality.

The first point is important because it suggests that some leaders see organisations as nothing more than rational entities set up to achieve declared goals. They will tend to see values, ethics and any structured approach to the creation of ethical culture, only in terms of the benefits they can generate in the achievement of the stated goals. This is consistent with the content of the amoral leader as proposed by Freeman (1991) in which he proposes that some leaders are only focused on outcomes and results with an emphasis on efficiencies. This establishes a means orientation, where followers are seen as resources or objects to be manipulated so as to drive goal related behaviour. Freeman continues that the emphasis on position and personal power means that such leaders are in effect unconcerned about choices for followers resulting in a high human cost for followers. This parallels deVries (2004) concept of the narcissistic leader who is more concerned with the accumulation of power than the impact on followers. Because of the emphasis on outcome, a further link can be made between the concept of the amoral leader and that of charismatic leadership. Howell and Avolio (1992) refer to the possibility of the unethical charismatic leader highlighting that these individuals often have a greater view of their own self worth and use manipulation and control mechanisms as a means of ensuring compliance to their vision. Post (1986, p 679) emphasises that the charismatic leader "requires a continuing flow of admiration from his audience in order to nourish his famished self. Central to his ability to elicit that admiration is his ability to convey a sense of grandeur, omnipotence, and strength". Conger (1996) concurs and suggests that the traditional leader roles and advocated characteristics, such as the ability to convey a vision, use effective verbal communication and building commitment could lead to negative outcomes.

In terms of the second issue, studies in organisational behaviour suggest that an individual's understanding of the complexities of a decision and its environment will impact on the quality of the decision (Robbins et al. 2004). It therefore can be construed that the level of moral understanding of a leader will directly affect the way in which they influence followers and the rest of the organisation. In effect the level of understanding of ethics as conceptual knowledge, would impact on the extent of ethical leadership displayed by the leader. Without this knowledge any behaviour exhibited by a leader, which appear to be ethical, are a result of happenstance rather than informed and

considered action. The later being a fundamental requirement for moral praise or blame to be afforded to an individual in relation to a specific action (Buchholz, 1989).

3. Explaining Ethical Behaviour

One of the best explanations for how people make ethical decisions is probably that developed by Lawrence Kohlberg. He found that in order for people to behave morally they must, among other things decide what course of action is morally right and then they must choose the morally right path over others. Kohlberg's theory primarily focuses on the first process, the process by which people decide what is morally right (French and Granose, 1996).

According to Kohlberg (1984) as individuals mature and move forward through his defined stages, they can comprehend all reasoning at stages below them, but cannot comprehend the reasoning of stages any more than one above their own. He suggests that we gain maturity and move through the stages when a dilemma presents itself, which cannot be resolved, explained, or seems to contradict our own current level reasoning. This can occur through general interaction with others, peers, colleagues or through more formal methods such as education and training (Ferrell, Fraedrich and Ferrell, 2005). According to Kohlberg, the actual decision isn't as important as the process used to arrive at it. However, he argued that leaders at the higher stages of development make more ethical the decisions because they are more consistent with the normative ethical principles of justice and rights (French and Granose, 1995).

There are clear implications for leadership in that a leader's ability to understand ethical reasoning, will have a direct impact on the type of ethical strategy they support and the behaviour which they model to the rest of the organisation. The six stages of cognitive moral development can be summarised as three levels: the pre-conventional, conventional and post-conventional level.

The pre-conventional level suggests that the decision as to what behaviour is right is largely determined by the rewards, punishments and favours associated with the action and later linked to reciprocity. This suggests people follow laws and rules automatically because they do not want the negative consequences, eg reprimands, fines etc., or because they are rewarded through prizes, salaries etc., (French and Granose, 1995). According to Petrick and Quinn (1997, p.235) the typical leadership styles reflected include autocratic and coercive power leadership, path goal and transactional leadership. The likely outcomes for organisations would be a strong focus on task accomplishment. The use of rules and regulations act as a means of ensuring compliance.

At the conventional level what is determined as right is generally living up to the roles and expectations others, fulfilling duties and obligations and following rules and laws. The important concepts are those of trust and loyalty, so people may do what a leader or managers ask of them because they want to please them or because others whom we respect say it's important to follow the directions of our leaders (French and Granose, 1995). The implication for leadership is clear. According to Petrick (1997, p.235) and Quinn, the typical leadership revolve around situational leadership styles, with transactional leader-follower exchange at the later stage. The likely outcomes for organisations would be developing group cohesiveness and competence. The culture would emphasise teamwork and assisting individuals to become part of the team. At the later stages, the emphasis would shift to respecting internal authority and authority figures. Ensuring compliance with legal and regulatory frameworks and enhancing the authority of leadership.

Lastly at the post conventional level, people have gone beyond notions of self interest or referent groups, rather they make decisions based on more principled notions such consistent with justice and rights. In addition people consider the concept of moral law, that which exist beyond the written law as contributing toward societal well being (French and Granose, 1995). According to Petrick and Quinn, (1997, p.235) the typical leadership styles reflected include participative and servant-follower styles before moving on to transformational and empowered team leadership at the later stage. The likely outcomes for organisations would be an emphasis on serving constituency needs, democratic decision making with an emphasis on communication of information and the ethical implications of such. In the later stage Petrick and Quinn (1997, p.237), suggest that consensual decision

Turner et al. (2002) identified that leaders operating at higher levels of cognitive moral development were more likely to make decisions based on principled approaches and take into account the rights of others and use concepts of justice and fairness in their decision making. This suggests that there is a relationship between levels of cognitive moral development and ethical leadership- the more sophisticated the moral reasoning the greater the likelihood of ethical leadership. According to Turner et al. (2002, p. 305) "leaders with more complex moral reasoning will be able to draw on more sophisticated conceptualisations of interpersonal situations, are more likely to think about problems in different ways, and are cognizant of a larger number of behavioural options".

A more contemporary view of the leader follower compact by Cialdini (2001), emphasises liking, reciprocity, social proof, (modelling behaviours), and consistency, amongst others as hallmarks of effective and ethical persuasion practices and as such would fit with the principled level of leader behaviour.

4. The Unethical Organisation and Leadership

The extent to which an organisation is prepared to act (un)ethically to achieve its stated outcomes can more often than not be traced to its executives. Similarly, competition relating to incentives such as promotion, pay increases and recognition between individuals within and between organisational levels is part of modern corporate life. Mitchell (1987) reframed this individual competition as the ethic of personal advantage.

In addition to the identified responsibilities of ethical leadership to establish values and based on clear understanding of ethics and to recognise the importance of role modelling, ethical leadership also entails ensuring that a process for enculturating the values is established, that it is adequately resourced and delegated appropriately. Such systems typically involve the use of formal written policies in ethics, usually a codified set of standards, supported by reporting systems and employee training (Hoffman, 1995). Unfortunately the primary reasons why codes and their related systems fail also rest with senior executives (Newton, 1995).

Longstaff (1994) suggests that the development of a code as an alternative to active and creative management of an organisation's culture is an act of folly. When it comes to addressing the problem of ethics, most companies look for cheap "off the shelf" solutions. Whilst this may appear superficially efficient, they prove almost totally ineffective. He argues that there needs to be a climate of trust within an organisation sufficient for employees to believe that claims of management, and those who advocate ethics, that the rules or guidelines are designed to prevent mischief, or promote a worthwhile good. Clearly this is based on the fact that the range and quality of the relationship that underpins an organisation's culture need to be such that a sufficient degree of loyalty is felt to be owed to the institution and its defining end.

A code of ethics should be a document that expresses an organisation's underlying values. It is therefore essential that the document ring true for those to whom it applies. This means that codes of ethics need to be devised in consultation with people most directly affected by its application, its employees. The very process of developing the code can have a profound effect on the culture of an enterprise.

Newton (1995) has identified three leadership principles that if broken undermine any attempt to develop ethical cultures.

4.1 The Principle of Participation

Studies in organisational behaviour suggest that greater commitment to a decision flows from the opportunity to participate in the process. This creates a sense of ownership and commitment. The opportunity to participate strengthens the likelihood of a successful program, (McEwan 2001).

Codes are often conceived subjectively, by executives or their nominees, to be applied coercively - being devised by a more powerful group applying to a less powerful group (but not necessarily to themselves) Such programs are often devised with little or no consultation with those to whom it will apply. (Newton, 1996) Codes, which are developed by few people and imposed on others, are at greater likelihood to fail, for it fails any measure of democracy, the understanding of governance that holds participation in policy formulation to be part of justice and it also fails on any likely relevance to the situation of those excluded employees (De George, 1997).

Unless ethical values are generated in a climate of imminent organisational death, then providing time to adjust is not an outrageous luxury. People need to disengage from existing way of doing things. The process of disengagement depends on a strong communication about the importance of the new ethical values and any associated code of conduct, why the organisation has chosen this moment to make things explicit and the implications of the ethical values for managerial and employee actions. As DeGeorge (1997) points out we are willing to allow short lists of rules to be simply imposed on us, so long as the author is reliably known to be God. Senior officers, even CEOs are not God.

Longstaff (1994) suggests that it is important to observe that people are more likely to apply rules that they have had a hand in developing rather than those, which have been handed down. A degree of ownership of a process can create an acknowledged prima facie obligation. Another reason for involvement is that it increases the likelihood that the documents will have direct relevance to the daily activities and experiences of those to whom they apply. It will also assist in mitigating the problems of codes calling for one set of behaviours whilst custom and practice demand another.

Longstaff (1994) highlights more important reasons for involving everyone. The foremost of these is that the development of the ethics policy can be an expression of the principle that people are owed respect. The fact that an organisation chooses to involve people in the process of defining its ethos, gives credence to the fact that the organisation sees its employees are more than resources or means to its stated end.

An open culture such as the one identified above is likely to be one where trust can be engendered and one, which is typified by resilience, being able to cope with change. When value questions are reserved for judgement of few, then pockets of unresolved differences can undermine the foundations of the organisation (Newton, 1995).

4.2 The Principle of Validity

Newton (1995) identifies the second principle as the clear requirement that codes need to have a basis that is reasoned, supported by logic, is coherent, includes a commitment to justice and process etc. In other words the code must be designed using accepted ethics principles. Rather than develop codes of ethics correctly it is often done subjectively based on individual's perceptions about what one should or should not do. As previously identified, the responsibility for ethics is with the senior executives, however, most people do not necessarily have the required knowledge and expertise to develop these programs. The development of such systems needs to be based on solid information, taking into account existing literature and research in this field. As identified earlier, the leader understanding and ability to distinguish ethical complexity is crucial.

4.3 The Principle of Authenticity

McCoy (1985), Lagan, (2000) and Sims and Brinkmann (2002) argued that one of the most critical aspects of corporate culture is the moral tone and example set by top leadership, irrespective of whether compliance based or integrity systems are used in an organisation. The dominant core values of the firm's culture are formulated at the top and its authority structure begins there. Thus ethical behaviour must begin at the strategic level (Lagan, 2000). This point is emphasised by Trevino and Nelson (1995, 1999) who identified that leadership is crucial to the ethical behaviour and culture of an organisation, as integrity--or the lack of it --flows from the top down. They suggested that this is a truly profound statement as history has shown that employees of an organisation will follow the actions of senior management, irrespective of the existence of a code of ethics or a code of conduct. Sims and Brinkmann (2002) identified that the relationship between leadership and ethical culture or climate determines the level of behavioural consistency, that unethical leaders tend to attract more attention than ethical ones, and they have greater potential to influence employee behaviour. The personal values of senior executives, reinforced by their authority, set the ethical tone of the organisation. They suggested that leaders who failed to identify key organisational values, and failed to demonstrate these to organisational members through examples and role modelling and also failed to ensure reinforcement through organisational policies, demonstrated a clear lack of ethical leadership and fostered unethical organisational culture. If employees do not perceive senior managers to be complying with ethical policy, they may tend not to comply themselves.

Schein (1997) suggested that leadership is a crucial component in the establishment of organisational culture because it is the leaders who create, maintain or change that culture. The notion that corporate leaders are responsible for ethical culture has also been identified by a number of theorists including Barnard (cited in Robbins and Barnwell 1998), Paine

(1994), and Trevino and Nelson (1999), who describe the executive's role of creating the morals or values of an organisation, as a characteristic of executive work distinct from that of other organisational members. Hosmer (1991) contended that it is the senior executives of the organisation who define and espouse the organisation's beliefs and norms. This is consistent with most organisational behaviour theory, which identifies that one of the sources of organisational culture is the beliefs or values of the founders and or leaders of an organisation.

Schein (1985, 1997) described the process of role modelling as the messages communicated to employees by the actions of leaders. Employees look to leaders for clues about appropriate behaviour and then will emulate the leader's behaviour. Sims and Brinkmann (2002) suggested that is the case with any cultural value, as employees look to the behaviour of the leaders to find out what is valued in the organisation. Schein (1985, 1997) also linked the rewards conferred by leaders as a significant signal to organisational members as to the type of behaviour that is expected in the organisation. He argues that these rewards must be consistent with the values espoused by the leaders. A further link is made by Schein (1985, 1997) with respect to the way organisational leaders employ and dismiss individuals. He argued that leaders shake up corporate culture by establishing the criteria for selection and dismissal of employees. These processes send clear values to the rest of the organisation about the type of culture that is preferred by the leader. Sims and Brinkman (2002) concluded that the lack of ethical leadership puts an organisation at risk because these leaders will cause potential ethical problems when they do not take steps to establish systems to minimise unethical behaviour. They argued that ethical leadership is not just about having personal values but also the willingness to put these into action.

5. Conclusion

As Weiss (1996) has identified, Ethical conduct within organisations must be a shared vision and proactive that is actively communicated and modelled by executive and managers and employees on an on going basis. As shareholders become more informed and involved in the moral management of organisations, the ethical leaders must also work cooperatively and responsively as partners with the firm's stakeholders to ensure that justice and fairness are exemplified by the firm's leadership and integrated into everyday operations of the organisation.

Ethical leadership is a concept that involves the traditional aspects of leadership and recognition of the moral nature that such action has on the organisation and its stakeholders. It requires that leaders develop and foster values, which are enculturated throughout the organisation. Ethical leadership recognises that the leader perception of ethics and the moral responsibility of

organisations will impact on the nature of these values and strategies by which they are institutionalised.

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