

5.6: Leadership- Ethics at the Organizational Level

Learning Objectives

1. Understand the importance of ethical leadership in organizations.

Organizational leadership is an important first step toward identifying and enacting purpose and ethical values that are central to internal alignment, external market effectiveness, and responsibility toward stakeholders (Collins, 2001; Weiss, 2015). The scholar Chester Barnard (1939) defined a values-based leadership approach as inspiring “cooperative personal decisions by creating faith in common understanding, faith in the probability of success, faith in the ultimate satisfaction of personal motives, and faith in the integrity of common purpose.” Exhibit 5.4 illustrates how vision, mission, and values are foundational in guiding the identification and implementation of an organization's strategic and operational questions and alignment—which is a major part of leadership.

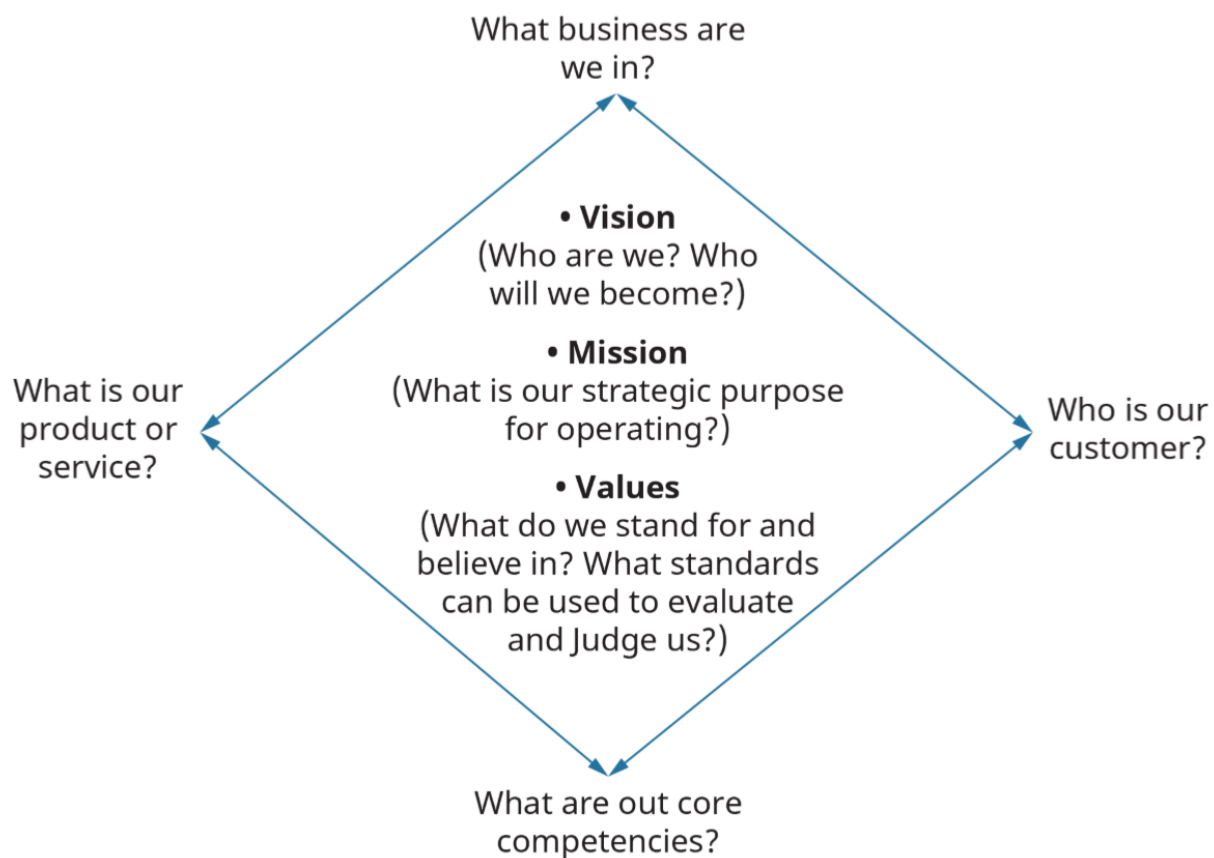


Exhibit 5.4 Strategic Organizational Alignment Source: Joseph W. Weiss. © 2014.

Leadership is defined as the ability to influence followers to achieve common goals through shared purposes (Rost & Barker, 2000). Organizational leaders are responsible to a wide range of stakeholders, stockholders, and employees toward meeting the organization's goals. How responsibly and ethically they choose to do so depends on several factors. From an ethical and related effectiveness perspective, the leader's values count since these generally become the values of an organization. A leader's influence is referred to as “the tone at the top.” While a leader's values should align to those of the organization, its vision and mission, this is not always the case, as we know from the crises discussed earlier when referring to the classical failures at Enron, Tyco, WorldCom, Wells Fargo, and other notable companies.

Since leadership is a most important element in forming and directing an organization's strategy, culture, and governance system, it is often a shared responsibility among other officers and followers that cascades throughout the organization. For example, the widely acknowledged Ethisphere, a private firm that evaluates firms' ethical behavior and responsibilities, uses five criteria that produce a single Ethics Quotient (EQ) score. The first is a company's ethics and compliance program, which accounts for 35% of the EQ. The second criterion is whether or not ethics is embedded into a company's culture and to what extent. The third element is

corporate citizenship and responsibility, which measure companies' environmental impact. The fourth component is corporate governance—whether a firm's CEO and board chair are held by one or separate people. An increased focus recently emphasized diversity in board and leadership positions. The fifth criterion is leadership, innovation, and reputation (Kauflin, 2017).

According to Ethisphere, in 2017 there were 124 honorees spanning five continents, 19 countries, and 52 industry sectors. Among the Ethisphere (2017-2024) list are 13 eleven-time honorees and 8 first-time honorees. Honorees include “companies who recognize their role in society to influence and drive positive change in the business community and societies around the world. These companies also consider the impact of their actions on their employees, investors, customers and other key stakeholders and leverage values and a culture of integrity as the underpinnings to the decisions they make each day.”

The top 10 ethical companies in 2017 as measured by Ethisphere's criteria are shown in Table 5.1.

World's Top 10 Most Ethical Companies Honorees:

Table 5.1

Company	Industry	Country
3M Company	Industrial Manufacturing	USA
Accenture	Consulting Services	Ireland
Aflac Incorporated	Accident & Life Insurance	USA
Allstate Insurance Company	Property & Casualty Insurance	USA
Alyeska Pipeline Service Co.	Oil & Gas, Renewables	USA
Applied Materials, Inc.	Electronics & Semiconductors	USA
Arthur J. Gallagher & Co.	Insurance Brokers	USA
Avent Inc.	Electronics & Semiconductors	USA
Baptist Health South Florida	Healthcare Providers	USA

Source: Adapted from Ethisphere, 2017-2024, <https://www.worldsmoethicalcompanies.com/honorees/>

Table 5.1

For ethical leaders, authenticity and integrity, in addition to their values, are also important components of character and behavior that must be translated into attitude and action toward followers, external stakeholders, and broader communities. Leaders are responsible for showing respect toward others, treating all stakeholders fairly, working toward a common good, building community, and being honest. These virtue-related values, also referred to as character-related, as discussed earlier, help create an ethical corporation and environment:

Show Respect for Others

Respecting others requires leaders to recognize the intrinsic worth of others and forces them to treat people as ends in themselves—never as a means to an end. In other words, people should be seen as valuable because of who they are (a universal principle), not only because of what they can do for others or how they can help others advance. Showing respect for others includes tolerating individual differences and allowing followers to think independently, act as individuals, and pursue their own goals. When a leader shows respect for followers by providing them autonomy, subordinates can feel more useful, valued, and confident. Such a situation often leads to greater loyalty and productivity among subordinates.

Treat All Stakeholders Fairly

Ethical leaders strive to treat everyone their decisions may affect fairly and justly. Equality is also a top priority for ethical leaders and needs to factor prominently into their decision-making. Ethical leaders must refrain from offering special treatment to others; failure to do so creates winners and losers—in-groups and out-groups—and can breed resentment between those who receive special treatment and those who do not. The only exception occurs when an individual's specific situation warrants special treatment for a just outcome to be realized.

Preventing winners and losers from emerging is not always easy. Some situations require the distribution of benefits and burdens and thus can test a leader's ability to ensure that justice is achieved. Beauchamp and Bowie defined the common principles that guide leaders facing such dilemmas; their findings can help leaders allocate responsibilities fairly and justly (Beauchamp & Bowie, 1988). These principles stipulate that every person must receive an equal share of opportunity according to his needs, rights, effort, societal contributions, and performance.

Work Toward a Common Good

Mahatma Gandhi offers an example of what striving toward a common good entails. Known for his commitment to nonviolent protests and mass civil disobedience, the Indian activist and ideological leader spent 20 years in South Africa opposing legislation that discriminated against Indians. He spent the remainder of his life in India fighting for independence from foreign rule and working to reduce poverty and taxation, liberate women, and end multiple forms of discrimination (Lelyveld, 2011). He championed such causes not because he would personally benefit but because a larger, more substantial population would. Gandhi devoted his life to furthering social causes he believed in and developed a personal sense of purpose and meaning that later translated into a societal and then global ethic.

Ethical leaders strive to further social or institutional goals that are greater than the goals of the individual. This responsibility requires the ethical leader to serve a greater good by attending to the needs of others. This type of behavior is an example of altruism: a steadfast devotion to improving the welfare of others. Altruistic behavior may manifest in a corporate setting through actions such as mentoring, empowerment behaviors (encouraging and enabling others), team building, and citizenship behaviors (such as showing concern for others' welfare), to name a few.

Build Community

Whole Foods Market, purchased by Amazon in 2017, is well known for its community outreach programs on both local and global scales. Every Whole Foods store donates to community food banks and shelters. Throughout the year, it holds "5% days," when 5% of the day's net sales are donated to local nonprofit or educational organizations. Globally, the company established the Whole Planet Foundation to combat world hunger and supports programs addressing issues such as animal welfare, nutrition, and environmentally friendly production methods.

The effort of Whole Foods to strengthen its stores' local and global neighborhoods is a perfect example of leaders building community. When an ethical leader focuses on the needs of others rather than the self, other people will often follow suit. This can lead to a strong contingent of followers working with the leader to achieve a common goal that is compatible with the desires of all stakeholders. Furthering a common goal means no one can place his needs ahead of the group's goals, and an ethical leader cannot impose his will on others. A successful CEO who works with many charities or other individuals to feed the homeless exemplifies a leader-building community.

Be Honest

Honesty is considered desirable by practically everyone, but it is sometimes unclear what honesty demands of us. Being honest is not simply telling the truth and avoiding deceitful behaviors; it requires leaders to be as open as possible and to describe reality fully, accurately, and in sufficient detail. Telling the complete truth is not always the most desirable action, however. Leaders must be sensitive to the feelings and beliefs of others and must recognize that the appropriate level of openness and candor varies depending on the situation.

According to a survey, 58% of people internationally trust companies, but 42% are less sure. Being more transparent with customers, stakeholders, and stockholders should become a priority for leaders and boards of companies (The Guardian, 2014). Dishonesty can be a disastrous practice for a leader. Dishonest leaders distort reality, which can lead to unfavorable outcomes for all stakeholders. Researchers Cialdini, Petia, Petrova, and Goldstein (2004) found that dishonest organizations suffer from tarnished reputations, decreased worker productivity, and various damages related to increased surveillance. They concluded that the costs of organizational dishonesty greatly outweigh any short-term gains from such behavior.



Exhibit 5.5 Robert Cialdini (pictured) and other researchers claim that dishonest organizations suffer from tarnished reputations, decreased worker productivity, and various damages related to increased surveillance. They concluded that the costs of organizational dishonesty greatly outweigh any short-term gains from such behavior. (Credit: Dave Dugdale/ flickr/ Attribution-ShareAlike 2.0 Generic (CC BY-SA 2.0))

Stewardship and Servant Leadership Styles

Effective leaders and followers, who lead by example and demonstrate virtuous practices while demonstrating successful practices are more numerous than the media or press reveal. Entrepreneurs who practice both stewardship and servant leadership are also examples. Their names are not always recognizable nationally, but their companies, communities, and stakeholders know them well. For example, in 2017, Inc.com's list of top 10 leaders features four women CEOs who go beyond the "call of duty" to serve others while succeeding in business. For example, Brittany Merrill Underwood started and is CEO of Akola Jewelry and was named in Yahoo's "Best Person in the World" series in 2014. Her company "reinvests 100 percent of their profits to support work opportunities, training, social programs, and the construction of training centers and water wells in impoverished communities throughout the globe" (Oates, 2014).

A classic example of these leadership styles is also represented by Aaron Feuerstein, a previous CEO of a manufacturing plant in Massachusetts, whose example continues to represent both a steward and servant leadership style (YUNews, 2021).

✓ Managerial Leadership

Servant Leadership Personified: Aaron Feuerstein at Malden Mills

Aaron Feuerstein, a third-generation owner of Malden Mills in Lawrence, Massachusetts, suffered his factory burning to the ground on December 11, 1995. Feuerstein had the option of using the insurance money to rebuild the plant, but instead, he paid the salaries and complete benefits of all 3,000 workers for 6 months while the factory was rebuilt. He later said that he had no other option than to help the employees. His action was based on his study of the Talmud:

"I have the responsibility to the worker, both blue-collar and white-collar. I have an equal responsibility to the community. It would have been unconscionable to put 3,000 people on the streets and deliver a death blow to the cities of Lawrence and Methuen. Maybe on paper our company is worthless to Wall Street, but I can tell you it's worth more."

Feuerstein exemplified the two ethical leadership styles of stewardship and servant leadership, focusing specifically on how leaders work with followers. (Ethical leadership as a whole concerns the leader's characteristics and encompasses actions in both the internal and external organizational environment.)

Source:

Yeshiva University, "Remembering Aaron Feuerstein", November 17, 2021. <https://www.yu.edu/news/remembering-aaron-feuerstein-zl>

Questions

1. How does Aaron Feuerstein exemplify servant leadership principles?
2. If Feuerstein had decided to use the insurance money for other purposes, would he have not been acting ethically?

Stewardship is concerned with empowering followers to make decisions and gain control over their work. **Servant leadership** involves selflessly working with followers to achieve shared goals that improve collective, rather than individual, welfare. There is a wealth of information on both of these styles. We will briefly address both here, as both involve treating followers with respect—a key component of ethical leadership—and endowing followers with the ability to grow both personally and professionally.

The stewardship approach instructs leaders to lead without dominating followers. Leaders who practice stewardship sincerely care about their followers and help them develop and accomplish both individual and organizational goals. Effective stewardship breeds a team-oriented environment in which everyone works together. Organizations led by steward leaders are marked by decentralized decision-making—that is, leadership is not centered in one person, group, department, or administrative unity; power is distributed among all stakeholders (Lussier & Achua, 2006).

The servant-leadership approach was formulated by Robert K. Greenleaf (1977), who believed that leadership is a natural corollary of service. Servant leadership goes beyond stewardship by requiring leaders to eschew personal accolades and devote themselves entirely to a greater cause. Greenleaf stated, “The essential quality that separates servant leaders from others is that they live by their conscience—the inward moral sense of what is right and wrong. That one quality is the difference between leadership that *works* and leadership—like servant leadership—that endures.” The following aspects are central to servant leadership:

1. Placing service before self-interest. The servant leader’s primary concern is helping others, not receiving recognition or financial reward.
2. Listening to others. Servant leaders recognize the importance of listening to the ideas and concerns of stakeholders; they never attempt to impose their will on others. This aspect allows servant leaders to strengthen relationships, understand group needs and dynamics, and effectively allocate resources to improve the group’s welfare.
3. Inspiring through trust. As we discussed earlier, ethical leaders must be trustworthy. It does not take much effort for servant leaders to be truthful because they usually have strong moral convictions.
4. Working toward feasible goals. Servant leaders realize that many problems cannot be solved by one person. They also tackle the most pressing issues facing their groups.
5. Helping others whenever possible. Servant leaders lend a helping hand when the opportunity arises. An example is the district manager of a fast-food chain who helps part-time employees flip burgers during lunchtime rush hour. Another is the director of a business unit who observes that a team is short a member and needs help in meeting a deadline; the director joins the team for the afternoon to help meet the deadline (Greenleaf, 1977).

Another way of understanding the distinguishing characteristics of servant leadership is offered by DeGraaf, Tilley, and Neal (2004):

The main assumption is that true leadership should call us to serve a higher purpose beyond ourselves. One of the most important aspects of leadership is helping organizations and staff identify their higher purpose. The best test of the servant-leadership philosophy is whether or not customers and staff grow as persons! Do customers become healthier, wiser, freer, more autonomous, and more likely to become “servants” themselves? And, what is the effect on the least privileged in society? Will they benefit? Or, at least, not be further deprived? To achieve this higher purpose of public organizations, you, as a leader, must be passionate about your desire to improve your community and yourself!

Dark Side of Organizational Leadership

However, as noted earlier, not all leaders lead or model high standards or values. Seven symptoms of the failure of ethical leadership provide a practical lens to examine a leader’s shortsightedness:³⁶

1. Ethical blindness: They do not perceive ethical issues due to inattention or inability.
2. Ethical muteness: They do not have or use ethical language or principles. They “talk the talk” but do not “walk the talk” on values.
3. Ethical incoherence: They cannot see inconsistencies among the values they say they follow (e.g., they say they value responsibility but reward performance based only on numbers).
4. Ethical paralysis: They are unable to act on their values due to lack of knowledge or fear of the consequences of their actions.
5. Ethical hypocrisy: They are not committed to their espoused values. They delegate things they are unwilling or unable to do themselves.
6. Ethical schizophrenia: They do not have a set of coherent values; they act one way at work and another way at home.
7. Ethical complacency: They believe they can do no wrong because of who they are. They believe they are immune.

Examples of highly unethical recent leaders and their dark side leadership practices are described in Inc.com’s “[What the 10 Biggest CEO Failures of 2022 Teach Every Leader](#)” and many take-away messages, such as:

- Keep perspective. The entrepreneurial dream is special, but don’t let the dream become a nightmare.
- It’s never OK to disrespect employees. Stakeholders will judge you by your humanity -- or lack of it.
- If an idea isn’t working, move on, and if necessary, move on with it.

- You can't hope your way to success. Sort underperformance sooner rather than later.
- Don't spin in a crisis. You're under the microscope as much for integrity as results.
- Know your partners. And don't skip due diligence in the rush to grow quickly.
- If it looks too good to be true, it is. Don't sell clients on junk.
- You can't keep everyone happy. Being true to your values makes it easier to deal with fallout.
- Disclose more rather than less in ethical matters as transparency takes precedence.
- Don't take on more than you can handle, and lead with your ego.

A major takeaway from the outstanding and undesirable ethical leadership examples presented here is that organizational culture *counts* and that without an ethical culture, both poor and exemplary moral leadership decisions flourish (Walsh, 2022).

? Concept Check

1. What role does leadership play in how ethically organizations and their members act and perform?
2. Explain what stewardship is and the role of servant leadership.

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