

### 5.3.5: 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.<sup>22</sup> The scholar Chester Barnard defined a values-based leadership approach in 1939 as one that inspires “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.”<sup>23</sup> Exhibit 5.4 illustrates how vision, mission, and values are foundational in guiding the identification and implementation of the strategic and operational questions and alignment of an organization—which is a major part of leadership.

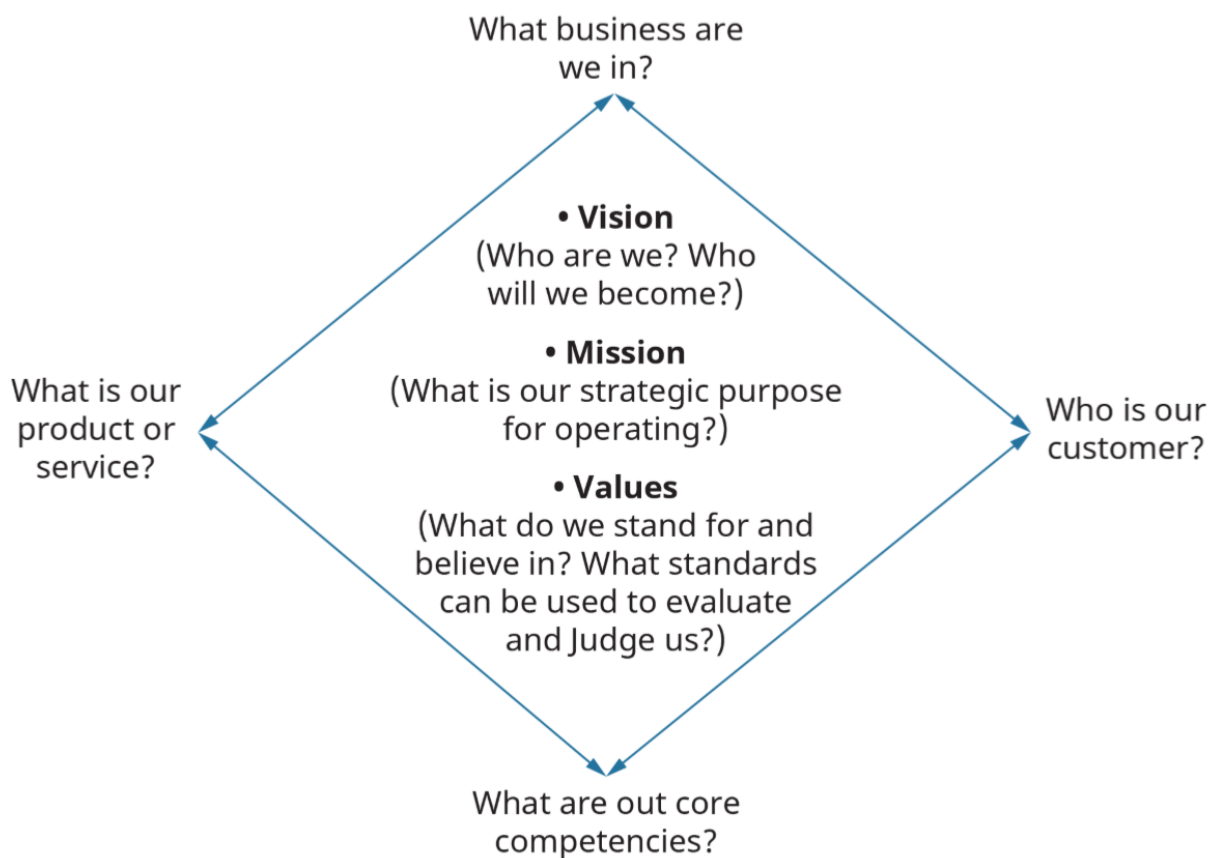


Exhibit 5.4 Strategic Organizational Alignment Source: Joseph W. Weiss. © 2014.

Leadership is defined as the ability to influence followers to achieve common goals through shared purposes.<sup>24</sup> Organizational leaders are responsible to a wide range of stakeholders and stockholders as well as employees toward meeting the goals for the organization. How responsibly and ethically they choose to do so depends on a number of 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. As an 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 and the extent to which ethics is embedded into a company’s culture. The third

element is corporate citizenship and responsibility, elements that 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.<sup>25</sup>

There were, according to Ethisphere, 124 honorees in 2017, spanning 5 continents, 19 countries, and 52 industry sectors. Among the 2017 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.”<sup>26</sup> The top 10 most ethical companies in 2017 as measured by Ethisphere's criteria are shown below in Table 5.1.

**World's Most Ethical Companies Honorees**

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, <https://www.worldsmostethicalcompanies.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 also be translated into attitude and action toward followers, external stakeholders, and broader communities. Leaders have a responsibility to show respect toward others, treat all stakeholders fairly, work toward a common good, build community, and be 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 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 affording followers the freedom 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 in a fair and just manner. 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 in order 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 such situations 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.<sup>27</sup> 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.<sup>28</sup> 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, recently purchased by Amazon, 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 and throughout the year 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 that 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 actually 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 recent 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.<sup>29</sup> 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 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.<sup>30</sup>



Exhibit 5.5 Cialdini Robert Cialdini 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. Such examples are also entrepreneurs who practice both stewardship and servant leadership. Their names are not always recognizable nationally, but their companies, communities, and stakeholders know them well. For example, Inc.com's recent 2017 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."<sup>31</sup>

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.<sup>32</sup>

### ✓ 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 he instead paid the salaries and complete benefits of all the 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, and he presented at Xavier University:

"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 deathblow 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, which focus 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: Xavier University News and Events, “Former Malden Mills CEO Aaron Feuerstein speaking at Heroes of Professional Ethics event March 30”, March 24, 2009, [https://www2.xavier.edu/campusuite25/modules/news.cfm?seo\\_file=Former-Malden-Mills-CEO-Aaron-Feuerstein-speaking-at-Heroes-of-Professional-Ethics-event-March-30&grp\\_id=1#.W6FLZPFyUk](https://www2.xavier.edu/campusuite25/modules/news.cfm?seo_file=Former-Malden-Mills-CEO-Aaron-Feuerstein-speaking-at-Heroes-of-Professional-Ethics-event-March-30&grp_id=1#.W6FLZPFyUk)

### 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 individual as well as 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.<sup>33</sup>

The servant-leadership approach was formulated by Robert K. Greenleaf, 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 a 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.<sup>34</sup>

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

The main assumption is that true leadership should call us to serve a higher purpose, something 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, 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? To achieve this higher purpose of public organizations, you, as a leader, must be passionate about your desire to improve your community and yourself!<sup>35</sup>

### Dark Side of Organizational Leadership

However, and 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:<sup>36</sup>

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 are not able to see inconsistencies among values they say they follow; e.g., they say they value responsibility but reward performance based only on numbers.
4. Ethical paralysis: They are unable to act on their values from 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 Fortune's "World's 19 Most Disappointing Leaders." Two illustrations are summarized here. Martin Winterkorn, the former chairman of Volkswagen, who led VW during "a disastrous scandal (which is far from over), as company engineers installed software that manipulated emissions on about 11 million diesel vehicles. Winterkorn has asserted ignorance of any wrongdoing." He is also known as being a micromanager who formed a ruthless culture that emphasized winning over all else. Then there was Rick Snyder, governor of Michigan, who "left the impoverished city of Flint, Mich. with a lead-tainted water supply that is being blamed for illness and brain damage, especially among its youngest residents." Snyder also blamed "failure of government" and the Environmental Protection Agency for its "dumb and dangerous" rules permitting dangerous amounts of lead in the water systems.

A major takeaway from both 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.<sup>37</sup>

### ? Concept Check

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

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