Topic 6 Leadership Ethics and Social Responsibility

Introduction
The purpose of this module is to examine important issues about leadership ethics and social responsibility. The focus is on leaders rather than on a general treatment of business ethics and includes a summary of the theory of ethics. This topic examines the significance and relevance of ethics in leadership and ethical behaviour including ethical decision-making. In the course of their work leaders may be confronted by ethical dilemmas. How should those dilemmas be addressed so that the organisation, groups and individuals within the organisation are not adversely affected, especially when ethics lies between the domains of codified law and free choice, where there are no specified laws and they are based on shared principles and values. Here ethics rely on obedience to unenforceable norms and standards of individuals and as such disagreements and dilemmas about proper behaviour often occur.

Learning Objectives
- Specify key principles of ethical and moral leadership.
- Apply a guide to ethical decision making.
- Present representative examples of unethical behavior by business leaders.
- Describe what leaders can do to foster an ethical and socially responsible organization.
- Explain the link between business ethics and organizational performance.

Principles & Practices of Ethical and Moral Leadership

Ethics is the study of moral obligations and of separating right from wrong. Ethics are the accepted guidelines of behavior for groups or institutions. Morals are an individual’s determination of what is right or wrong and are influenced by their values. As there is no definitive agreement on what is moral or ethical, leadership decisions relating to this sphere are not straightforward. Additionally the concept of what is ethically acceptable differs from culture to culture. However, it is clear that there is a relationship between one’s personal values and ethical behaviour. A moral leader will practice good ethics converting ethics into action.

Ethical Leadership Behaviors
Ethics is the code of moral principals and values that govern the behaviour of a person or group with respect to what is right or wrong. Managerial ethics refer to those standards and principles that guide the actions and decisions of managers and determine if the actions are ‘good or bad’ or ‘right or wrong’ in a moral sense. As such ethical managerial behaviour is behaviour that conforms not only to the law, but also to a broader set of moral principals common to society.

Ethics is at the center of leadership because the goal of a rational leader is to merge the interests of all parties so that everyone benefits and the organization prospers. Relevant behaviours are:
Be Honest and Trustworthy and Have Integrity in Dealing with Others
Pay Attention to All Stakeholders
Build Community
Respect the Individual
Accomplish Silent Victories

Factors Contributing to Ethical Differences
An ethical dilemma occurs every time a manager must choose whether or not to pursue a course of action that, although offering the potential of personal and/or organisational benefit, is also unethical in the broader social context.

How unethical practices develop is to recognise that ethical behaviour is a function of context and as such ethical erosion may develop over time. For example, an over-emphasis on conformity with a corporate culture may promote complacency or when short-term considerations override long-term ones. Sometimes individuals justify unethical behaviour by drawing distinction between personal and professional ethics.

Some factors that contribute to ethical differences are:
- Level of Greed, Gluttony, & Avarice
- Rationalization
- Implied Permission
- Level of Moral Development
- Entitlement
- Situation
- Person’s Character

The Ethical Mind for Leaders
For a leader to stay ethical, they must develop an ethical mind, or a point of view that helps the individual aspire to good work that matters to their colleagues, companies and society in general. A starting point is to believe that retaining an ethical compass is essential to organizational health. Thus to behave ethically, a leader needs to establish their own ethical compass, adhere to ethical values, reflect on their ethical behaviours through self-testing, ask a mentor to comment on their ethical behaviour and to act quickly to confront unethical behaviour in others.

Guidelines for Evaluating the Ethics of a Decision
Ethical issues are usually subtle rather than blatant or is an issue that falls into the grey zone. Here is an ethical screen to help leaders determine if a given act or specific decision is ethical or unethical:

1. Is it right?
2. Is it fair?
3. Who gets hurt?
4. Would you be comfortable if the details of your decision or actions were made public in the media or through email?
5. What would you tell your child, sibling, or young relative to do?
6. How does it smell?
If still in doubt simply ask
1. Is it legal?
2. Is it balanced? Fair to all concerned? Does it create win-win relationships?
3. How will it make me feel about myself? Do I feel proud? How would I feel if my family knew about it?

**Consider the following two ethical dilemmas:**
You have been going through some old records and realise that systematic billing errors occurred several years ago that were advantageous to your company but cost customers a substantial amount of money. The errors are no longer being made, a new computer system has eliminated them. The company has never acknowledged the mistakes or made compensation for them. **Would you bring up this past problem?**

You made a costly error but one of your peers was blamed for the mistake. You’re quite certain the false accusation won’t harm her career, however, the truth could hurt you. **Do you admit your guilt?**

**Fostering Ethical Behaviour**
It has been asserted that an ethical culture in an organisation is developed by the actions its leaders take, not the values they espouse. If we consider the earlier model of leadership – Servant Leadership, the assertion is that ethical leadership can be measured by the level at which followers grow as people and whether they become wiser and more autonomous during the process and the effect on the least privileged in society.

A leader’s behaviour can satisfy certain criteria if it is to be considered ethical:
- Doing what results in the greatest good for the greatest number of people
- Respecting the rights of all affected parties
- Treating people equitably and fairly.
- Consider existing ethical norms to determine what constitutes right and wrong decisions and actions.

**A Sampling of Unethical Leadership Behaviours**
A statement often made is that about 95 percent of business leaders are ethical and that the 5 percent of bad apples (mostly senior executives) get all the publicity.

The **impact of unethical leadership** has been enormous:
- Bankruptcy
- Layoffs of thousands of workers
- Diminished trust in stock investments
- Discourage talented young people to study business

**Leadership & Social Responsibility**
In this section we consider the welfare for the community, within which the business operates, as an ongoing concern for leaders, thus recognising leaders’ obligations to
society beyond the company’s economic obligations to owners or shareholders – and – beyond those prescribed by law or contract. Corporate social responsibility is the process by which managers within an organization think about and discuss relationships with stakeholders and how they will work toward attaining the common good.

Both ethics and social responsibility relate to the goodness or morality of organizations but social responsibility relates to an organization’s impact on society and goes beyond doing what is ethical. It is a social obligation, beyond what is required by law and economics, for a firm to pursue long-term goals that are good for society.

Creating an Ethical Organizational Culture

A few socially responsible actions organisational leadership may consider:

Providing for Strategic Leadership of Ethics and Social Responsibility - Senior managers can become ethics leaders, leading by example.

Creating a Pleasant Workplace - A social responsibility initiative that directly affects the well-being of people is the creation of a comfortable, pleasant and intellectually stimulating work environment.

Guarding the Environment - Socially responsible leaders influence others to preserve the external environment through a variety of actions that go beyond mandatory environmental controls. Helping build a sustainable environment can involve hundreds of different actions such as making packaging smaller, using solar panels and recycling.

Engaging in Philanthropy - A standard organizational leadership approach to social responsibility is to donate money to charity and various causes. Another approach to getting a rapid turnaround on charitable giving is for a company and their employees to respond directly to immediate needs, such as aiding wildfire victims.

Working With Suppliers to Improve Working Conditions - An excellent opportunity for practicing social responsibility is for company leaders to work with suppliers to improve physical and mental working conditions of supplier’s employees.

Establishing Written Codes of Ethical Conduct – It is estimated that 90% of major corporations have written codes if ethics that guide employees for ethical and socially responsible behavior. Most codes deal with quite similar issues when confronted by ethical dilemmas

Developing Formal Mechanisms for Dealing with Ethical Problems – About one third of Fortune 500 companies have Ethics Committees. Similarly, large employers have ethics programs of various types. An ethics committee typically establishes policy and conduct audits.

Accepting Whistleblowers - A whistleblower is an employee who discloses organisational wrongdoing to parties who can take action. Whistleblowers often go directly to a federal government bureau to report what they consider to be fraud and poor ethics by their employer. More than half the time, the pleas of whistleblowers are ignored.

Providing Training in Ethics and Social Responsibility - Ethics training programs reinforce the idea that ethically and socially responsible behaviour is both morally right and good for business and are most likely to be effective when the organizational culture encourages ethical behavior.
Placing Company Interests over Personal Interests - People who look beyond self-interest to build partnerships in pursuit of the greater good contribute to success in today’s interdependent world. “We” leaders unify, rather than divide.

**Ethical Behaviour & Organizational Performance**

There is a strong argument that high ethics and social responsibility are related to good financial performance. This is because there is a reinforcing relationship between social responsibility and financial performance.

A current model states that when demand for social responsibility investments increase, value-maximizing managers will find it in their self-interest to make these investments even if cash flow is reduced. Also, when demand for social responsibility investments is high, the company’s market value might increase.

The relationships between social responsibility and profits can also work in two directions. More profitable firms can better afford to invest in social responsibility initiatives and these initiatives can in turn lead to more profits. The *virtuous circle* means that corporate social performance and corporate financial performance feed and reinforce each other.

**Summary**

Key principles of ethical leadership include having honesty and integrity, paying attention to all stakeholders, building community, respecting the individual and accomplishing silent victories. Leaders should possess a set of values and beliefs that guide them in doing the right thing rather than the politically expedient things. Leaders can encourage ethical behaviour by promoting social responsibility.

An ethical leader will have a consistent set of values regardless of what they are dealing with (for example: class, gender, race, religion, cultural, age differences) and will always consider their actions in relation to others and the impact this action will have on them.

Over the years unethical behaviors have had detrimental effects on many companies. Consequently leaders should seek answers to a series of important questions before reaching a decision about an issue that is not clearly either ethical or unethical.