ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

Ethics, the Progressive Development of Corporate leadership

Dr. Magdy Hussein PhD

Ashford University

mhussein@yahoo.com

Abstract

In a complex environment of todays' global business, ethical leader is hard to find and harder to create. However, leaders were never born with leadership skills. They learn from their mistakes and they develop their leadership character through a step by step process. This paper illustrates models of leaders and examines how ethics present might add great value to leaders when they are up to making business decisions. Corporate scandals that took place during the last decade have contributed tremendously in portraying American businesses as a corrupt system; this image has put business leadership to the test. They are now mandated to design their strategic and tactical decisions that affect both stockholders and stakeholders in a fashion of decency and ethics. In today's economy in the U.S., the ongoing waves of downsizing and layoffs must be based on economic facts and social realities. Ethical and moral obligations toward both stockholders and stakeholders require business leaders to wisely balance between the immediate return and the visionary well-being of their organizations.

ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

Business ethics can be traced through organizational behavior and leadership decisions. One major responsibility of business leader is to embed ethics and morality in the foundation of company's decision making process. This, of course, will require format and mechanism to review all managers and executives' decisions by company's code of ethics which presents the legal side and by a morale perspective which presents the good-faith side. In either cases, a company's reputation will gain value and gain business.

Business Leadership

It sounds like a simple task to identify business leadership as leading a group of people to achieve specified goals, but in reality the definition goes beyond one's imagination because it is subject to psychological, cultural, environmental, and circumstantial surroundings. Hence, Heifetz (1994) assessed leadership on its capability to realistically cope with situations stating that changing the status quo requires more than changing the authoritative figure. Adaptive work requires adjustments, learning, and compromise of many of the dominant, complacent and beleaguered" (p-238).

In order for business leaders to effectively manage others, they must first understand how to manage themselves. Some call it emotional intelligence, some call it self-awareness, but until individuals are aware of their strengths and limitations, and addressed their ineffective actions, they are not prepared to effectively manage individuals, groups or organizations. The essential prerequisites for addressing performance inadequacies are self-awareness and self-change because they deliver credibility, the root of organizational change. Once the foundation has been built, extending the skills to provide solid leadership to individuals, teams and organizations is natural and fluid.

The understanding of leadership recognizes it as the influence of an individual, sub-group or a group of people over others to think, to behave, to plan, to make-decisions, and to execute strategies in a certain manner. In this respect, Solomon (1996) defines a business leader as the one who inspires and motivates, not just resolves or manages.

Therefore, it is essential for leaders to know how to communicate their ideas and strategies in the clearest and most effective way. Successful communicator must have great skills of listening as well as speaking. Clearly, people respond positively to good listeners because they feel the sense of respect to their talk. Parkin (1997) assured the good result of such mutual and equal level of communication stating that "without open discussion some people may feel neglected or excluded. By getting everyone's views, it is more likely that you will be able to alter them and get what you want" (p-63).

Another skill that business leaders must acquire is how to successfully delegate others. Culp and Smith (1997) summarized such a skill in how to identify a suitable person for the task, prepare that person by explaining the task clearly, make sure that it is well understood and give him or her the necessary authority to do the job properly. Kelleher (1997) added an important element of

ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

praising and rewarding the delegate for a job well done. Kelleher focused on ensuring culture of commitment among employees including executives by equitably compensating them as a result of good performance.

These skills of business leadership highlight certain characters and styles a person must acquire in order to become and act like a business leader. The main characteristics for leadership include managerial skills, charisma, transforming ability and ethical behavior. The integration of these characters creates an ideal model of a leader who can perform precisely, effectively, and righteously.

The Managerial Leader:

Management represents the science of skills that translate the deep understanding of people's view of higher authority into action. It is necessary to perceive that there is no conflict to lead as a manager and to manage through leadership. In fact, there is a strong tie between leadership and management. Leaders with management skills can effectively plan and decisively execute strategies. In support to the importance of the management skills, Griffin (1999) describes these skills as a set of activities that direct organization's resources to achieve objectives and goals in an efficient manner.

Additionally, Bass's (1981) verified this distinct leadership and management relationship by stating: "Leaders manage and managers lead, but the two activities are not synonymous….

ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

Management functions can potentially provide leadership; leadership activities can contribute to managing. Nevertheless, some managers do not lead, and some leaders do not manage" (p-383). But the most definite fact is that the overlap between the two characteristics will bring a leader manager. A leading manager can inspire people to achieve the targeted goals, can read minds, make changes, set objectives, design plans, and effectively perform.

Equally, Hess and Siciliano (1996) found that a leader manager has the art of coordinating human, material, technological, and financial resources to achieve the organization's goals. Along with the same direction Weihrich and Koontz (1993) concurred that a successful leader must possess basic managerial skills that involve influencing people to compassionately contribute to the organization goals. This has to do predominantly with the interpersonal aspect of management.

From the perspective of compassion, a successful manager should be able to create a comfortable workplace and ensure job security to employees. McCall (2002) articulated the importance of employee's job security stating that "when workers need not fear that they might lose a job without cause, when they have the guaranteed cushion of severance should the economic need for their services disappear, when they have serious voice in the creation and implementation of corporate policy, then they have much greater ability to control their lives" (p-7).

ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

The Charismatic Leader:

Charisma represents the power of emotions and passions that have the ability to move masses of people into certain direction to achieve particular goals. Accordingly, most famous charismatic leaders were known for their talents of reflecting on past incidents and current events. They then translated their reactions into visionary plans.

Charismatic leadership helps individuals and groups accept uncertainty, because they have confidence that the leader will provide solutions to any problems that may arise. In regard of challenges or risk that may face any leadership, Heifetz (1994) clarified leaders' influence on followers in the following statement "the long term challenge of leadership is to develop people's adaptive capacity for tackling ongoing streams of hard problems. In early stages charismatic authority is a strong resource" (p-247). Such leaders must know how to articulate their clear vision into a simple and well-instructed message that everyone can understand and implement. Additionally, Conger (1989) complemented these skills recognizing charismatic leaders as those who are sensitive to environmental constraints and able to identify opportunities even during crisis.

It is important to differentiate between charisma and egoism in business. In egoism, the individual-self is the motivating moral force to act ethically. The pitfall of egoism is the failure to keep balance between self-interest and commitment to stakeholders' well being. This imbalance leads to the contingency of losing jobs and threatening society's stability. The shortcomings of egoism reflect the need for ethics to become the core element in charismatic leaders.

The Transformational Leader

Transformational leadership lends itself to the most difficult, complex and vague organizational problems. These are the adaptive problems that require rethinking of the organization's structure, values, and culture.

In 1978, Burns added a new dimension of leadership that represents the ability of changing situations. In his book, Burns made a clear distinction between the transactional leader and the transformational leader. According to Burns, transactional leaders "approach followers with an eye to exchanging one thing for another: jobs for votes, or subsidies for campaign contribution. Such transactions comprise the bulk of the relationships among leaders and followers, especially in groups, legislatures, and parties" (p-4). Burns, on the other hand, defines a transformational leader as the one who "recognizes the existing need or demand of a potential follower. But, beyond that, the transforming leader looks for potential motives in followers, sees to satisfy higher needs, and engages the full person of the follower" (p-462).

A transformational leader could be described as visionary, inspiring and daring but the most popular description of this type of leadership is that it revives failing companies and leads them into a future that is very different than their past. As a result, the transformational leader should provide both the skills and encouragement necessary for others to bring about positive change in an organization through examination of personal attitudes, values and beliefs. Therefore, transformational leadership focuses on enhancing the group dynamic and creating an optimal environment for creativity.

Rouche, Baker and Rose (1989) believe that the transformational leader adopt the philosophy of sharing vision with others in order to cultivate an intuitive and inspirational approach and direction that work at all levels of the organization. For this reason, the transformational leaders communicate their ideas and visions with followers in the most clear, precise, and effective methodologies available. Without a doubt, transformational leadership brings together the best thinking in team effectiveness, communication, conflict management, and the psychology of relationships.

The Ethical Leader:

Ethics represent the moral conduct, duty, and judgment. People perceive ethical leadership as the standard to distinguish right and wrong. In business, ethics is an essential configuration of leadership. Consequently, George (2003) extended the scope of ethics by pointing out:

> "We need authentic leaders, people of the highest integrity, committed to building enduring organizations. We need leaders who have a deep sense of purpose and are true to their core

values. We need leaders who have the courage to build their companies to meet the needs of all their stakeholders, and who recognize the importance of their service to society" (p-198).

In contrast, Ciulla (1995) abstained from stripping unethical leadership away from a basic definition of leadership. However she argued that ethics have always been the focal point of scholars' definitions of leadership. This leads to the subject of goals and means and how this will raise the sole hearted question of ethics and its implications. (p 5-24)

On the contrary, Rost (1991) differentiated between ethical means and ethical goals. Rost's proposition led to the conclusion that ethical means do not necessarily lead to ethical results and unethical means may lead to ethical results. This school of thought is not new, "The Prince" (1532) written by Machiavelli (1469-1527) is a good example of such philosophy that disregards any connection between ethics and leadership. This philosophy is adopted and works fine for politicians. Yet, it does not work for business leaders because of the vigorous competition of the market. Trust based on firms' ethical behavior forms a strong base of any long-term business strategy. Therefore, business leadership must act according to their preach.

The one mission of ethical leadership is to act as one whole identity, representing ethical values in its preaching, thinking, decision-making, and implementing. It is the duty of ethical leadership to instill these principles and face its sequential challenges. In support, Burns (1998) affirmed these ethical values through the effectiveness of leadership based on the ability to raise the morality of followers to engage with noble objectives and goals.

ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

There is intensive discussion in the news currently about ethics, particularly in the business sector. Many major corporations have been guilty of accounting irregularities and fraud. Each individual possesses his or her own values and ethics that are reflected in their leadership style. This is true of business executives and others in high-level management positions. Business leadership must energize employees at all levels utilizing a comprehensive methodology of performance that promotes ethical actions and incorporates them with rewarding recognition.

Leadership Challenges in Business

The current economy with its global and domestic dimensions requires high quality leadership with intensive skills to meet fast changes in the surrounding dynamic market. Leadership must be proactive and have the will to learn continuously. Leaders need to perpetuate that ethics and morals are essential to deal with the complex challenges in today's market.

During recessions, difficult business decisions have to be made to cope with the abnormal economic situation, some of these decisions are in conflict with stakeholders' interests. Therefore, applying ethics and morals could be a challenge.

Business tactical decisions have been used in the form of lay offs and outsourcing in order to increase revenues and cut corners in budgets. These decisions attributed to the loss of myriad jobs, benefits, and health insurance.

ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

This type of economic environment challenges leadership's ethical and moral principles. Within such context, Rost (1986) defines such an environment as an ethical dilemma where the consequences of an individual's decision affects the interests, welfare, or expectations of others. Rost, in his definition, warned of the social damage that may occur as a result of these types of business decisions.

Ethical Leadership Social Responsibility

Ethical leadership has its impact on organization behavior and consequentially on the surrounding society. Responsible leadership makes decisions knowing that it will be held accountable for the outcome results. In their article, Beu and Buckley (2001) purported that accountability has an effect on ethical behavior. Business leaders must not digress from the sequences of their decisions and accept the blame in the same manner they accept the reward. Supporting the same idea in both ethical and legal dimensions, Jones (1991) described unethical behavior as, "the behavior that has a harmful effect upon others and is either illegal, or morally unacceptable to the larger community" (p-367).

Therefore, conflicting decisions create dilemmas for leadership due to their ethical loyalty toward stockholders and their moral obligation toward stakeholders. In accordance, Beauchamp and Bowie (2004) stated that, "the classical U.S. view that a corporation's primary and perhaps sole purpose is to maximize profits for stockholders" (p-45).

ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

Organization theorists have contributed greatly in deepening the understanding that the absolute right to structure an organization and define its goals and objectives belongs solely to stockholders. Theorists view stockholders as the focal point of an organization. In contrast, Friedman (1970) emphasized the stockholders' powerful position by describing the corporate executive as an employee working for the business owners. Organizations must raise the awareness with their board of directors about the importance of strengthening human resources' position within the organization structure. Handy (1985) believed that there is a strong linkage between organization's culture and organization's structure. This link tightens employees' obligations toward achieving the organization's goals. Therefore, focusing on structuring the organization with ethical employees pays off on the long term.

Other theorists focused on the importance of individuals' and groups' role in the decision making process. The stakeholders' theory takes in consideration the external environment as an influential element in organization's behavior. Therefore, not everything stockholders wish can be granted.

According to Younkins (1997), strategically corporate managers must pay attention to stakeholders. It is by definition that stakeholders are those who are affected by a development outcome or have an interest in a development outcome. Therefore, stakeholders include employees, suppliers, investors, customers, local communities and others who contribute significantly to the success of the corporation. But, does a company's social responsibilities end at its boundary or does its responsibilities expand to cover the broad definition of stakeholders? Certainly, one could argue that a company is composed of its employees and all of its assets, such as land, buildings, and equipment. These can thus define a company's boundary. Given this view, everything else may be called a company's environment and therefore outside of a company's control or responsibility. On the other hand, independent identities such as suppliers and contractors, who set their businesses according to a promised long-term relationship with an organization, have become natural stakeholders influenced by any of that organization's strategic decisions. In such case, organization's social responsibilities extend beyond what is normally thought of as its boundary to the extent that it has some control and influence over other affiliated companies.

In contrast, Friedman (1970) emphasized that organization's leadership represented by its executives must exercise social responsibilities toward others on the ground principle of serving stockholders' interest. To illustrate, it is believed that fulfilling corporate social responsibilities maximizes the return to stockholders. Here comes leaderships' significant role to benefit their organizations and invest in the attached community at the same time. It is leadership's styles and characters that shape this strategic role to handle such challenge.

ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

Strategically Ethical

In order to meet these ethical and moral challenges, leadership must show the courage of voicing a balanced vision, a vision that fulfills the ethical obligation toward stockholders and meets the company's social responsibilities toward stakeholders.

It is strategically necessary for leaders to set an example of strong commitment to the organization's mission and to abide with its cultural regulations. Violating such a commitment causes great harm to stockholders and breaks the ethical contract between the owners and the organization leadership. In agreement with the previous statement, Felo (2001) adopted restricted policies in corporate governance to ensure strong relationship between stockholders and company's executives. While written policies and regulations are fundamentally required to straighten up this relationship, additional ethical training programs have become necessary and mandatory to all employees.

However, Berenbeim (1992) sees implementing ethics programs may not achieve the goals of creating people with ethics. Therefore, it is necessary for the organization's leadership to guide employees on how to practice business ethics and to cultivate the sense of moral as a business norm. Collectively, Wiley (1998) refers to the importance of leadership, represented by top executives, to establish the ethical tone of an organization.

It is undeniable to foresee the critical ethical behavior impact of a CEO on a corporate performance. Enron is still remembered as an example of how a CEO can contribute greatly in

ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

an organization's failure. Peattie (2004) attributed the influence of top executives' ethical practice on their employees. He argued that the idea of a tribal leader as an inspiration for business leadership may seem ridiculous by people who accept the idea of a military leader as a role model and source of inspiration without question.

Strategic leadership finds caring about the stakeholders' well being is for the benefit of stockholders. Agreeably, Goleman (2002) assessed leaders as those who understand their goals, live their values and know what to do and why. Those leaders truthfully inspire followers and communicate with the organization's mission. Simultaneously, they must demonstrate their ethical commitment to the organization's mission and to the moral values toward the stockholders through their actions and decisions.

Peterson and Ferrell (2004) claimed that the many recent and high profile corporate scandals were reasons to highlight the need for companies to do a better job of integrating ethics and social responsibility into business decisions. It is the leadership's duty to set an agenda for business ethics, bring ideas, and propose solutions to implement business plans with the boundary of effective ethics programs.

The critical part of a leader's work is to create the win-win situation where the mission of increasing stockholders' wealth should include sharing that wealth with stakeholders in the form of securing their jobs, benefits and pension. A visionary leader must show statistically how

ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

effective this policy is in getting better working performance, increasing production and consequentially increasing the company's earnings.

In a current research, Waldman, Siegel, and Javidan (2004) confirmed the role of CEOs in determining the extent to which their firms engage in corporate social responsibility. Also, Chun (2004) explained that if the company's leaders decide that ethics should become a business strategy not a personal moral character, they should look at ethics from the organization's perspective in a purely conceptual and normative manner. It is the leadership's role to bring ethics as a fundamental factor in their business strategy and organization behavior.

On the top of such leadership, CEO's must be willing to share governance responsibility with the board and the board should be vulnerable to the stakeholders. When the CEO's leadership and the board of directors' authority become wisely balanced, then this relationship is sure to lead to a successful governing of any organization.

CEOs must actively encourage dissent among senior managers by creating decision-making processes, reporting relationships, and incentives that encourage opposing viewpoints. By advocating dissent, top executives can create a climate where wrongdoing will not go unchallenged.

There is a potential impact when leadership behavior shapes the organization's ethics culture. Increasing productivity comes as a result of the employees' full commitment to the goals and objectives of their leaders. Consequently, organization credibility will rise in the sight of outsiders such as clients and investors. But the great gain in overall organization effectiveness is the ethical reputation that represents a major aspect of the total operation.

References:

- Bass and Stogdill's (1981). *Handbook of Leadership*. (Third edition). New York NY, Collier Macmillan.
- Beauchamp, T.L., & Bowie, N.E. (Eds.). (2004). *Ethical theory and business* (7th ed.). Upper Saddle River, NJ: Prentice Hall.
- Berenbeim, R. *Corporate Ethics Practices.* New York: The Conference Board, 1992.
- Beu, D. and Buckley, M. (2001). *The hypothesized relationship between accountability and ethical behavior*. Journal of Business Ethics.
- Burns, J. M. (1978). *Leadership*. New York: Harper & Row.
- Burns, J. (1998). *Empowerment for change*. In Bruce Adams and Scott W. Webster Eds. Kellogg Leadership Studies Project: Rethinking Leadership 1994-1997. College Park, MD: The Burns Academy of Leadership Press.
- Chun, R. (2004), *The virtue ethical character of organization: an empirical assessment & strategic implication*, Academy of Management Proceedings.

- Culp, G. and Smith, A. (1997). *Six steps to effective delegation*. The Journal of Management in Engineering.
- Felo, A. (2001). *Ethics programs, board involvement, and potential conflicts of interest in corporate governance*. Journal of Business Ethics.
- Friedman, M. (1970). *The social responsibility of business is to increase its profits*. Reprinted in Ethical Theory and Business, ed. Tom L. Beauchamp and Norman E. Bowie (Englewood Cliffs, N.J.: Prentice-Hall, 1993).
- Ciulla, J. (1995). *Leadership ethics: mapping the territory*. Business Ethics Quarterly, v. 5, 5-24.
- Conger, J. (1989). *Charismatic leader : behind the mystique of exceptional leadership*. Jossey-Bass Publishers.
- Goleman, D., Boyatzis, R., McKee, A. (2002), *Primal leadership: realizing the power of emotional intelligence*. Boston: Harvard Business School Press; 17,40.
- George, B. (2003), *Authentic leadership*, San Francisco: Jossey-Bass; 198.
- Goleman, D., Boyatzis, R., McKee, A. (2002), *Primal leadership: realizing the power of emotional intelligence*. Boston: Harvard Business School Press; 2002:17,40.
- Griffin , W. (1999). *Management*. (6th ed.). Boston, MA: Houghton Mifflin.
- Heifetz, R. (1994). *Leadership Without Easy Answers.* Cambridge, Mass: The Belknap Press of Harvard Press, 348 pages.

ISSN: 2348 9510
International Journal Of Core Engineering & Management(IJCEM)
Volume 1, Issue 3, June 2014

- Hess, and Siciliano J. (1995). *Management: responsibilities for performance*. New York, McGraw-Hill.
- Jones, T. M. 1991. *Ethical decision making by individuals in organizations: An issue-contingent model*. Academy of Management Review (April): 366-395.
- Kelleher, H. (1997). *Leader to Leader*, Leader to Leader Institute and Jossey-Bass.
- McCall, J. (2002). *Leadership and ethics: Corporate accountability to whom, for what and By what means?* Journal of Business Ethics.
- Parkin, J. (1997). *Choosing to lead*, Journal of Management in Engineering.
- Peattie, K. (2004). *In search of ethical business leadership : time to mix our metaphors?* Cardiff Centre for Ethics, Law and Society
- Peterson and Ferrell (2004), *Business Ethics: New Challenges for Business Schools and Corporate Leaders.* M E Sharpe Inc.
- Rost, J. R. (1986). *Moral development: Advances in research and theory*. New York: Praeger.
- Rost, J. (1991). *Leadership for the twenty-first century*. West Port, CT: Praeger.
- Roueche, J. E., Baker III, G. A., & Rose, R. R. (1989). *Shared vision: Transformational leadership in American community colleges*. The Community College Press: Washington, D.C.

- Solomon, R. (1996). *Ethical leadership, emotions, and trust: beyond charisma*. Ethics & Leadership Working Papers (Academy of Leadership Press).
- Waldman, D., Siegel, S., and Javidan, M. (2004), *Transformational leadership and corporate social responsibility: a meso-level approach*, Academy of Management Proceedings.
- Weihrich and Koontz, H. (1993). *Management: a global perspective*. New York: McGraw Hill.
- Wiley, C. (1998), *Reexamining perceived ethics issues and ethics roles among employment managers*, Journal of Business Ethics, Vol. 17 (2), 147-161.
- Younkins, E. (1997). *Stockholders as Stakeholders.* The Freeman: Ideas on Liberty.