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Components of Ethical Leadership and Their Importance in Sustaining Organizations Over the Long Term

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Components of Ethical Leadership and Their Importance in Sustaining Organizations Over the Long Term

Abstract
This article identifies components of ethical leadership and then aligns them with the style of leadership that includes them. The importance of such an article comes at a time when ethical practices or lack thereof seems to be increasingly prevalent in many organizations’ execution of their business practices. These organizations quite often have an ethics statement outlining required behavior of employees and tout their commitment to employees, society, and the customer, yet we continue to see major infractions of these codes of ethics. All this comes at a high financial cost to organizations. In order to avoid such fines, and damage to brand equity, we propose ethical components which must permeate the organization to ensure appropriate behavior which neither breaks legal requirements, disengages the employee, or alienates the customer.

Introduction
There are a number of reasons organizations behave unethically: shareholder pressure for growth, senior leadership striving to achieve its stated goals, impending financial losses, greed, and quite often ignorance. Repeatedly then, the offending organization has a well-structured and thought-out code of ethics or statement of ethics. So, what happens between this commitment to ethics and the unethical act? We propose that there is a malfunction in the ethical filter where the values espoused by the organization at the highest levels fail to filter down to those responsible for organizational functions. We further propose that quite often there is also a disconnect between senior executives and an organization’s code of ethics. If the senior leadership does not subscribe to its own code of ethics, then there is little reason to expect rank and file to consistently apply uniform ethical behavior (Moccia, 2012). The result is that unethical practices happen in two forms: senior leadership actions and organizational actions. Senior leadership acts for personal gain as exhibited by the CEOs of Countrywide Financial, Tyco, and more recently Wells Fargo and HSBC. Organizational actions are calculated on the financial returns for the company after fines are factored in – settlements quite often pale in comparison to profits so the result is that there is no incentive, economically, to discontinue the offending practice. Also of note are that unethical
practices and the fines which follow them are not industry specific. For example, the financial crisis of 2009 resulted in banks getting fined to the tune of $110 billion; the Volkswagen emission scandal cost $14.7 billion, while Glaxo Smith Kline has paid upwards of $7.9 billion over the past twenty years. Google and Amazon, the two major internet giants, continue to accumulate fines in the millions as well. Hence, unethical practices seem to have made their way into every facet of business almost without exception. This may be viewed as a failure of society as well as individual human failure. Or is it just that we are more aware of them now with the speed and volume of information available?1

Components of Ethical Leadership
We have already outlined how unethical practices manifest themselves in all industries. Therefore, the cause of unethical leadership cannot be pinpointed at particular industries because of regulations and aggressive oversight. Rather, it is because of human actions taken either intentionally or unintentionally that did not consider the full ramifications of those actions. It is worth noting that this research uncovered no instances where unethical practices executed by a firm actually resulted in losses for that firm. In other words, companies have never suffered from their unethical practices which therefore imply that such actions are calculated towards positive returns. It is the resultant fines that ultimately hurt the company. In light of this observation, we now posit that deliberate human action through flawed leadership is the cause. And flawed leadership is universal.

So, now we identify the key components which can be universal in creating ethical leadership across all domains. These are the components which should inhabit the moral compass of leaders while also being at the heart of a code of ethics. Too often, these codes of ethics fail to acknowledge that doing the right thing is difficult due to particular circumstances, but to state that would give a code of ethics a face of reality. Here now, we list these ethical components:

➢ Gratitude
➢ Humility
➢ Justice
➢ Mercy and Compassion
➢ Prudence and Objectivity
➢ Magnanimity
➢ Integrity and Resilience

After careful deliberation and without listing endless descriptors, we feel the above embody the characteristics and attitudes needed to effectively lead an organization in a modern world where the pressure to behave unethically abounds. Each either addresses an inward-looking character where the leader leads by example or an outward facing ethos by which employees are expected to embody. These components address the two forms of unethical practice earlier mentioned in this article: those emanating from the individual leader and those presenting throughout the organization.

1 While it is not the intention of this article to vilify, it is the intention of the article to show unethical behavior is not industry specific. And while unethical practices cost organizations huge amounts in fines and reputation, it appears senior leadership will distance it from those that actually execute unethical practices and refer to these employees as “bad actors.” This attempt at a disconnect is troublesome in terms of ethical leadership.
**Gratitude**

Gratitude can be defined as the thankfulness and sincere joy expressed in response to a gift or a kind (Peterson & Seligman, 2004). It is a virtue that shows great humility in interacting with people and brings the humanity into leadership as opposed to leadership being perceived merely as been a figurehead. Gratitude is an important element in developing leaders as it shows that without people leaders have no one to lead and as such it expresses thanks and appreciation to employees for their efforts. Too often employees feel they work in a vacuum and feel disjointed from their organizations and feel the need for sincerity (Beck, 2016). This gratitude, then, expressed often grows the sense of community that so many firms lack but seek. In turn, it then grows the commitment of employees to each other as individuals who work more fluidly with each other. This “community” breeds success and success grows when we appreciate what we have been given and inspires others to go out of their way to help us when needed (Gunn, 2002). Gratitude also builds loyalty and relationship continuity between employees and customers alike (Bock & Fols, 2016).

Although gratitude has been a term that fundamentally may have an association as a word with religion, research has also focused on gratitude as a personality characteristic and promotes one’s internal happiness (Wood et al., 2007). So, through gratitude we increase the connectedness of employees with each other, improve performance levels (Grant & Gino, 2010), and even raise the levels of happiness and satisfaction — key ingredients all organizations seek (Fowler & Christakis 2008). But no virtue comes without challenges as research by Peterson and Seligman (2004) shows that narcissism can unhinge the practice of gratitude as individuals with narcissistic tendencies believe they are special and cannot express gratitude or appreciation to others in a genuine way.

**Humility**

A necessary part of building trust humility consists in being aware of our limitations and reminds us to act in accordance with this fact; it is the possession of modesty and unpretentiousness and lets employees know that the leader needs them. From this, the leader builds a sense of positive hope and justice within organizational operations (Klenke, 2005). It is also perceived by employees to be a source of strength and confidence the leader has in them to perform their work duties. It is not a weak trait, though, as many consider upon first evaluation; it is a quiet, calm confidence, and admiration in the ability of others as the humble leader lacks arrogance, not aggressiveness (Doty & Gerdes, 2000). Humility also promotes a sense of reality – to accept things as they are which allows a leader to better strategize. Vera and Rodriguez-López (2004) noted that a humble leader acknowledges limitations and mistakes, and attempts to correct them. This grounding in reality provides for better organizational planning and contributes to organizational performance through its impact on organizational learning and organizational resilience (Morris et al., 2005). Reave (2005) states that the most effective leaders are those who are humble and so not entertain the desire for prominence. A great example of this is found in the leadership of Jim Goodnight, CEO of SAS who has presided over the company since he founded it in 1965. He possesses a quiet humility, speaks of the reality of life, has grown the company into a multi-billion-dollar enterprise, and has never had cause to lay off any employees. Jeung and Hoon (2016) also indicate that humility in leadership leads to employee empowerment and efficacy, and is therefore an essential quality for successful leadership while Owens and Johnson (2013) argue that humility compensates for a lack of leadership mental ability in winning greater participation from employees in decision making. Working counter to humility
leadership pride and stubbornness creates isolation and an inability to build consensus which are major leadership pitfalls (Delbecq, 1999).

**Justice**

The word justice, derived from the Latin *iustus*, governs the behavior of individuals and makes them recognize the rights of the others. In terms of the workplace, research has shown that organizational justice is a significant predictor of work attitudes and behaviors (Wang et al., 2010). Original work by John Stacy Adams (1963) on Equity Theory also states that individuals seek equality in the workplace and compare their performance and remuneration with those of their peers. Reave (2005) notes that justice among peers is one of the highest priorities of workers as each wants to be recognized for their contribution. Justice, therefore, serves as motivation to employees as it assures high performance because the corresponding recognition and reward will ensue. The burden then, of this application of justice, rests with the leader who must administer it evenly. Moreover, proper application of fairness which promotes a sense of justice creates better workplace citizenship and transparency of individuals value (Ajala, 2016). Leaders must be careful not to exercise favoritism in social, generational, or stereotypical contexts. This sentiment of favoritism runs in opposition to justice which should be used in judging performance. Such unfair treatment can lead to employees engaging in negative and even deviant behavior in organizations (Syaebani & Sobi, 2011).

**Mercy and Compassion**

Mercy and compassion, although perceived as religious intonations, are essential in the workplace. They represent the deep understanding a leader has of the difficulties subordinates may encounter in the execution of their duties. They embody empathy and a commitment to non-belligerence and civil behavior in the workplace. In a professional environment, exercising these virtues can present as being tough-minded on problematic issues while also being warm-hearted toward those who are causing the problem in order to address and correct behavioral problems (Gunn, 2002). In a work environment, a compassionate leader seeks the greatest good for the individual, the group, while also satisfying the mission of the organization (Briner & Pritchard, 1997). Kanov, Powley, and Walshe (2017) refer to compassion in the workplace as being courageous towards the suffering of others rather than ignoring them and that such expressions of compassion greatly improve the work environment tone for all employees. Apathy runs against compassion and mercy because apathy denotes a lack for caring or sympathy towards others. Gemmill and Wilemon (1994) inform that a leader must have the ability to deal with unseen interpersonal and personal problems which may affect the delivery of a project while Gandossy and Sonnefeld (2005) argue that the lack of leadership involvement with employees creates a disconnect leading to “bystander apathy” on the part of the employee.

**Prudence and Objectivity**

Prudence refers to thoughtful deliberation prior to action. The prudent leader considers the ramifications of actions on all parties involved in the search for preferred outcomes where detrimental effects are limited. Being prudent does not imply being “soft” or “slow” to action, but rather being exact and deliberate once the pre-action thought process has been complete. Research by Collins (2009) advises that prudent leadership is a vital component in
building great companies. Such prudence requires intelligence, patience, shrewdness, and circumstantial understanding. Prudence, then, must bring with it objectivity in being able to assess numerous perspectives.

Quick judgment and bias work counter to prudence and objectivity as they promote a lack of research and deliberation while including a preference for certain courses of action. Ditchkus and Sierra (2001), in studying bank loan officers’ behavior, identified how less prudent managers suffered greater loan losses as they were less conservative and thoughtful in their approach to issuing loans. This supports research by Fink (2011) which argues that prudent leadership wastes less organizational resources while McKenzie and Griwall (2011) identify how decision bias is a pitfall in developing sound decision-making processes.

**Magnanimity**

Employees need to see models of expected behavior; they need to act in accordance with desired behavior. The magnanimous leader provides that example of character and expectation of employees. The magnanimous leader displays realistic vision, builds trust, is forgiving, recognizes achievement in subordinates, and is generous with his or her time. This, then, is a culture-creating and building-characteristic welcome in any organization. With magnanimity comes the sentiment from employees to emulate and perform for the leader. And, in the physical absence of the leader, the persistence of the leader’s magnanimity creates social capital and keeps employees focused on striving for greater goals (Amintojjar, Shekari, & Zabihi, 2015).

In opposition to magnanimity is the scarcity of the leader in providing adequate time and communication to employees. Essentially, our leader leads in absentia and the result is a lack of understanding of organizational purpose exhibited by employees.

**Integrity and Resilience**

From the Latin word *integritas*, integrity defines the personal values which direct a leader’s behavior (Peterson & Seligman, 2004). A commitment to principles, according to Azuka (2009), is what great leaders hold in common. This adherence to moral behavior is one that regardless of religious background, is respected, admired, and welcomed by employees as it denotes the expectation of fair play in all transactions. Koehn (2005) cites integrity as a business asset valued by employees in interacting with leaders. Tulberg (2012) posits that organizations that prioritize integrity create a better working environment for employees and creates a more competitive organization that values individualism. This commitment to the individual and to strong personal values, therefore, serves to ensure greater quality in terms of products and service which are valued by the customer.

In contrast to integrity, corruption works to create a dysfunctional organizational lacking in goals and employee commitment to goals.

**Inferences**

While this article sought to identify components of ethical behavior, it also identified opposing forces which contribute to unethical behavior (*Figure 1*). Therefore, it also brings to light characteristics which help in the identification of unethical organizations.
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While we accept there are many traits inherent in ethical leadership, we attempted to identify those who provide example and set a tone for employees in the fulfillment of their job functions. And while we also accept that we live in a litigious society, we do not accept the position that being sued or fined is a hallmark of success. Ethical leaders are unique; they operate within a paradigm of moral behavior. This moral behavior can be used as a business asset in setting clear goals and creating a customer base that values honesty in business.

Unethical behavior costs organizations millions of dollars and euros in terms of fines and as such ethical behavior, in financial terms, makes good business sense. In a climate of budget control and cost cutting, to willingly put one’s company at risk for massive fines seems ludicrous at best. Thus, a commitment to an organizational culture based on ethical behavior both internally and externally seems to be a good financial decision in securing the longevity of a firm.

**Recommended Styles of Ethical Leadership**

While the practice of ethical leadership remains a challenge in a corporate setting, it remains that individuals are far less compromising on their personal ethics in daily life. Where, then, does the breakdown occur between private individual and corporate agent in the execution of ethical values? This conundrum may be explained by the abdication and forfeiting of responsibility by individuals while they are at work. Pressures created by supervisors for results, customers for preferential treatment, and co-workers for support all blur the lines of what is acceptable behavior. In a professional setting, industries are trending towards unethical — although legal — behavior known as “virtue ethics.” It exists in organizations in a particular industry when they behave unethically and is accepted as the industry norm in getting business done.

In seeking to buck the trend of unethical and indeed expensive business practices, we need to identify a means by which organizations can behave in a manner similar to individual ethical practices. And while we talk of strong leadership, mission statements, and codes of ethics, it remains that many organizations guilty of unethical trade practices already have, and espouse, these values. Quite often shareholder expectations, unrealistic goals, and fear of failure are the culprits for these compromised values. A form of leadership where personal values are transmitted and expectations clearly defined in terms of acceptable behavior is clearly needed. Moreover, the type of organization where these traits can flourish may be a better indication of how ethical an organization can be. To this end, we feel that a private organization free from the pressures of board of directors and shareholders provides a good starting point in identifying ethical organizations. Such private organizations led by individuals
with uncompromising core beliefs based on honesty and integrity quite often carry those dominant traits. Such organizations do not bear the shackles of having to return growth at certain rates quarter upon quarter, but rather can achieve steady, sustainable growth over the long term. And while we accept that many of the largest organizations are publicly-traded companies, we also posit that there exist many large, privately-held companies while also noting that the majority of any economy’s businesses are small and privately-owned. One such large multi-billion-dollar company is SAS, a predictive analytics company, which has been privately owned since its inception in 1965. Its leader, James Goodnight, displays a set of core values which show his appreciation of, and concern for, his workforce. He is available to his workforce and all employees have a clear understanding of who he is and what he stands for which permeates all aspects of the business. This type of leadership is termed authentic leadership and is a style which we feel promotes, and expects, ethical behavior. Authentic leaders transmit to their organizations their own personal values and attributes and as such, remove all ambiguity from employees’ minds of what is acceptable or unacceptable behavior. Authentic leaders preach their core values, insist on fairness and integrity, and do not tolerate deviance from the required values expected of employees. This “tough love” results in perceptions of a fair, caring, and engaged leader; it manifests itself as a no-nonsense leader who clearly defines the traits which his or her organization will assume.

A second style of leadership which would facilitate the tone of an organization expecting the best from its employees in terms of ethical behavior is that of altruistic leadership. With this form of leadership, the leader displays his or her concern for the well-being of employees. The expectation with this style of leadership is that employees experience affection from their leader; they then feel connected with him or her and in turn, exhibit the same altruistic tendencies. At the very least, employees are aware of the ethos of the leader and that unethical behavior is wholly unacceptable. Now, while this may seem as utopian leadership, it remains that customers would fully embrace doing business with a business which displays such leadership. Research in this area addresses how this form of leadership addresses organizational fit in terms of employees and how it helps employees relate to and self-identify with an organizational brand or philosophy (Lemmon & Wayne, 2015; Krog & Govender, 2015; Frey, 2017). Further research by Gotsis and Grimani (2016) indicates that this form of leadership displays inclusivity and as such, negates a sense of diversity in an organization through alignment with organizational values.

In the absence of the aforementioned leadership styles, a mechanistic approach of radical transparency may suffice. With this approach, all activities of employees are recorded and made available to all other employees. Employees who outperform using nefarious means may then have to validate their performance while legitimate high performers can share their methods for achieving success. Radical transparency, then through internal competition, can ensure employees police themselves by being aware that all performance is public and subject to scrutiny.

**Conclusion**

In business, as in life, it is easy to do the right thing when it’s not a challenge. However, when faced with pressures from stockholders and stakeholders in terms of increasing revenues, growing market share, remaining relevant in a competitive industry, and the increased disconnect between a leader in a large organization and employees, it is easy to see how the lines of ethical behavior and reasoning of decisions become frayed. Thus, an ethical vacuum
is created in the pursuit of goals at all costs. In terms of effects on profits, any behavior then can be seen as a financial decision, a business decision validated by an increased return in revenues even at the sacrifice of a potential monetary fine. And, from this, unethical behavior creeps in and becomes the rationalized normal behavior.

We argue, however, that by establishing clear boundaries of ethical behavior and recognizing personal convictions of individuals, a climate is created whereby the organization is kept mindful of the ramifications of its actions and therefore made better as a functioning organization in terms of creativity in the delivery of products and services, respect for individuals, fostering of camaraderie among workers, retention of key employees, and the sustainability of the firm over the long term. However, for this to be achieved, it must begin with leaders being genuine and clear in the communication of their values and furthermore by also taking action and displaying the components of ethical leadership outlined in this article.

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