

BUSINESS ETHICS

Ethical Decision Making and Cases

TENTH EDITION



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Part Four Implementing Business Ethics in a Global Economy

Chapter 11 Ethical Leadership



Defining Ethical Leadership

- **Leadership** is the ability or authority to guide and direct others toward a goal
- ❖ Ethical leadership creates an ethical culture
- ❖ Have the power to motivate others and enforce the organization's norms, policies, and viewpoints
- ❖ Positive relationship with the organizational citizenship of employees and a negative relationship with deviance or misconduct



Defining Ethical Leadership

- ❖ In many situations the actions of co-workers profoundly impacts the ethical decisions of employees
- ❖ Many CEOs articulate the firm's core values but fail to exhibit ethical leadership
- ❖ A leader must have followers' respect and also provide a standard of conduct
- ❖ Failure to demonstrate effective leadership qualities at the top creates the perception that managers either do not care about the company's ethics program or they feel they are above ethics and compliance requirements



Leaders Admired for Ethical Conduct

Leaders	Company	Ethical Leadership Activities
Warren Buffett	Berkshire Hathaway	• Promotes ethical conduct as a necessity of business • Shares responsibility and decision making with managers of various companies
Howard Schultz	Starbucks	• Offers healthcare to part-time workers • Developed Create Jobs for USA program to fund small businesses in America
Tony Hsieh	Zappos	• Creates a fun work environment for employees; encourages employees to make decisions • Stresses an environment of quality customer service
Kenneth Chenault	American Express	• Used his strong work ethic to turn around the struggling company • Noted for ensuring that stranded cardholders found a way home during the September 11th attacks and approved a \$1 million donation to the families of American Express employees lost in the tragedy
Kip Tindell	The Container Store	• Creates a corporate culture in which employees feel appreciated and motivated to perform beyond expectations • Employees are provided with better pay and more training than competing retailers

Source: "10 Most Ethical CEOs in America," Online MBA, March 28, 2012, <http://www.onlinemba.com/blog/10-most-ethical-ceos-in-corporate-america/> (accessed April 25, 2013).

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Requirements for Ethical Leadership

- Ethical leadership skills develop through years of training, experience, and learning other best-practices of leadership
- ❖ Leadership qualities differ for each situation
 - *Ethical leaders must model organizational values*
 - *Place what is best for the organization over their own interests*
 - *Train and develop employees throughout their careers*
 - *Establish reporting mechanisms*
 - *Understand employee values and perceptions*
 - *Recognize the limits of organizational rules and values*



Requirements for Ethical Leadership

- ❖ Strong ethical leaders are those passionate about the organization and act in the organization's best interests
- ❖ Ethical leadership is highly unlikely without strong personal character
- ❖ Ethical leaders do not wait for ethical problems to arise
- ❖ Ethical leaders must model the organization's values



Seven Habits of Strong Ethical Leaders

1. Ethical leaders have strong personal character.
2. Ethical leaders have a passion to do right.
3. Ethical leaders are proactive.
4. Ethical leaders consider all stakeholders' interests.
5. Ethical leaders are role models for the organization's values.
6. Ethical leaders are transparent and actively involved in decision making.
7. Ethical leaders take a holistic view of the firm's ethical culture.



Whole Foods' Core Values

- Selling the highest quality natural and organic products
- Satisfying and delighting our customers
- Supporting team member happiness and excellence
- Creating wealth through profits and growth
- Caring about our communities and our environment
- Creating ongoing win-win partnerships with our suppliers
- Promoting the health of our stakeholders through healthy eating education

Source: "Our Core Values," Whole Foods Markets,
www.wholefoodsmarket.com/company/corevalues.php (accessed April 25, 2013).



Benefits for Ethical Leadership

- ❖ Has a direct impact on the corporate culture of the firm
 - *Communicate and monitor an organization's values, ensuring that employees are familiar with the company's purpose and beliefs*
 - *Provide cultural motivations for ethical behavior, such as reward systems for ethical conduct*
 - *Can lead to higher employee satisfaction and employee commitment*
 - *Creates strong relationships with external stakeholders*
 - *Positive association between ethical commitment of employees and a firm's valuation on the stock market*



Ethical Leadership and Organizational Culture

- ❖ Compliance-based approach emphasizes obedience to rules and regulations and sets processes in place to ensure compliance
- ❖ Integrity-based approach views ethics as an opportunity to implement core values
 - *Take responsibility for the firm's ethical culture and hold employees accountable for practicing ethical behaviors and core practices*



Ethical Leadership and Organizational Culture

- ❖ Unethical leaders are usually ego-centric and often do whatever it takes to achieve the organization's objectives and their own
- ❖ Apathetic leaders are not necessarily unethical, but they care little for ethics within the company
 - *Does not listen to employees and does not communicate well*
- ❖ Ethical leaders include ethics at every operational level and stage of the decision making process



Managing Ethical Conflict

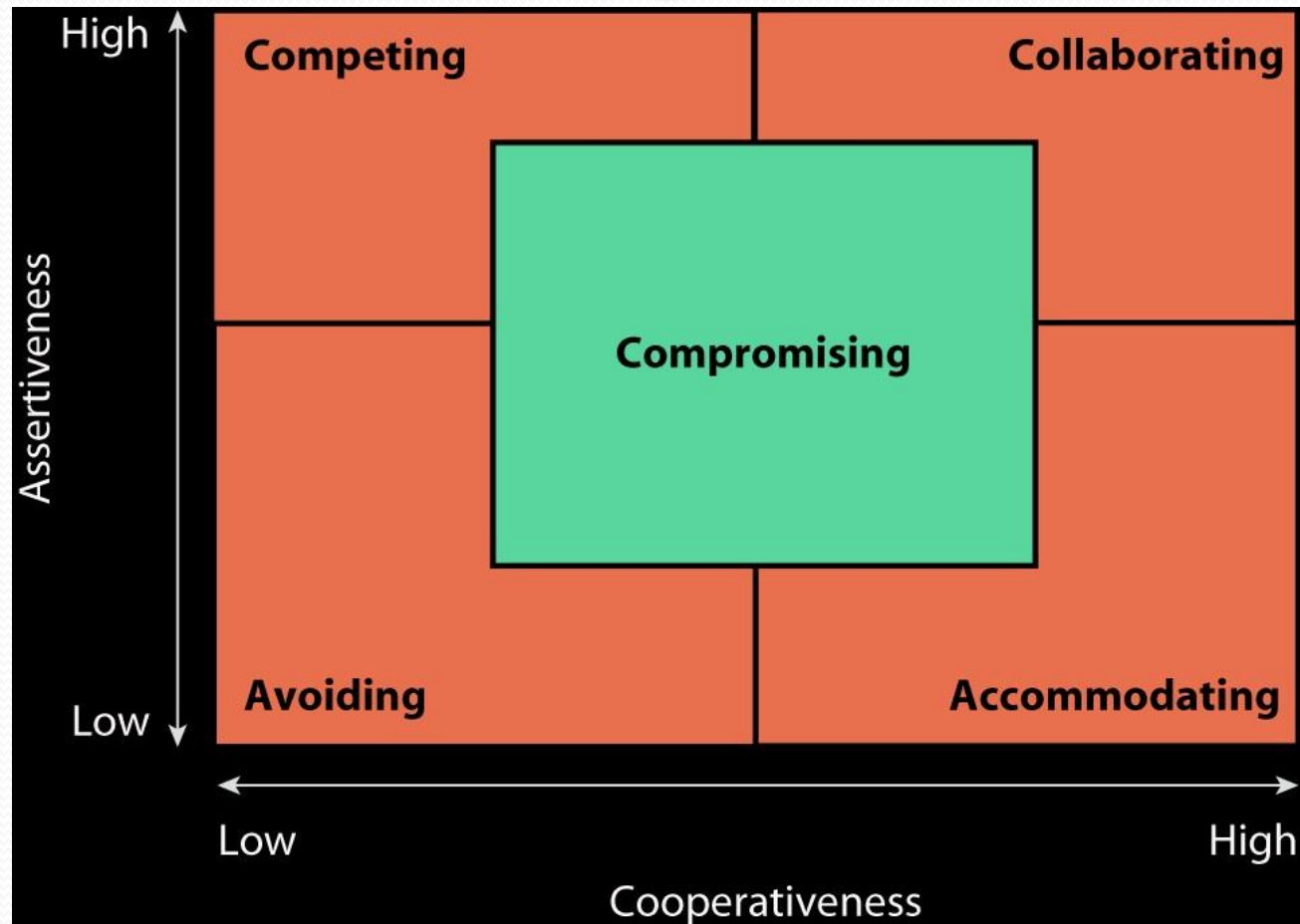
- **Ethical conflicts** occur when there are two or more positions on an ethical decision
 - ❖ Will not be brought to management's attention without effective mechanisms for transparent communication
 - ❖ Employees themselves should be trained to handle conflict situations



Conflict Management Styles

- Categorize conflict management into five styles: competing, avoiding, accommodating, collaborating, and compromising
- ❖ Based on two dimensions:
 - *Assertiveness is acting in one's own best interests*
 - *Cooperativeness means working toward the best interests of the other person*

Conflict Management Styles



Source: Adapted from Kenneth W. Thomas and Ralph H. Kilmann (March 2, 2010). *Thomas-Kilmann Conflict Mode Instrument: Profile and Interpretative Report*. © CPP, Inc.

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Conflict Management Styles

- ❖ Competing conflict management style: Highly assertive, not very cooperative, believe in winning at any cost, and measure success by how much the other side loses
- ❖ Avoiding conflict management style: Not effective because they avoid conflict at any cost even if it leads to misconduct, are uncooperative, and are non-assertive
- ❖ Accommodating conflict management style: Highly cooperative, non-assertive, and give in to the other side even if it means sacrificing their own interests and values



Conflict Management Styles

- ❖ Compromising conflict management style: In between the assertiveness and cooperativeness dimensions, believe best approach to resolving conflicts is for each side to give something up in order to gain something of value
- ❖ Collaborating conflict management style: Most advantageous, leaders are cooperative and assertive, and leaders collaborate with others to find a creative way to obtain a beneficial solution



Ethical Leaders Empower Employees

- Employee empowerment is an essential component of a values-based organizational culture
- ❖ Encourages employees to express concerns, bring up ethical issues, and take a proactive approach toward resolving conflicts
- ❖ Ethical leadership training for both managers and employees is helpful
- ❖ Important in creating employee-centered ethical leadership



Communication for Becoming a Better Leader

1. Have the tough conversations that you've been meaning to have, including telling people what they need (and not necessarily want) to hear.
2. Stop talking and listen more.
3. Pick up the phone or walk down the hall to actually talk with someone rather than relying on more impersonal emails.
4. Communicate bad news in the same way, with the same zest, as good news.
5. Share performance feedback with others regularly so that others know how they can improve.
6. Be purposeful and thoughtful in how you communicate.
7. Ask for feedback so you can improve your skills.
8. Work on your blind spots in your leadership abilities.

Source: Adapted from David K. Grossman, "13 Ways to Become a Better Leader," *The Public Relations Strategist*, Winter 2012, pp. 12–13.



Ethical Leadership Communication

- Transparency and reporting are two major dimensions of ethical communication
 - ❖ Create transparency by developing a culture where ethics is frequently discussed
 - ❖ Reporting is a two-way process in which the communicator communicates with superiors and subordinates
 - *Can be formal or informal*



Four Categories Of Communication

- *Interpersonal Communication*
- *Small Group Communication*
- *Nonverbal Communication*
- *Listening*



Ethical Leadership Communication Skills

- Organizational communication is separated into four categories:
 1. Interpersonal communication is the most well-known form of communication and occurs when two or more people interact with one another
 - *Often difficult to communicate to a superior*
 - *Ethical leader must work to reassure employees by balancing the interests of all relevant stakeholders*



Ethical Leadership Communication Skills

2. Small group communication is growing in organizations
 - *Can increase collaboration and generate a variety of difficult perspectives and opinions on a particular issue*
 - *Groupthink occurs when one or more group members feel pressured to conform to the group's decision even if they personally disagree*
 - *Group polarization refers to the fact that a group is more likely to move toward a more extreme position than the group members might have done individually*



Ethical Leadership Communication Skills

3. Nonverbal communication is communication expressed through actions, body language, expressions, or other forms of communication not written or oral
 - *Nonverbal cues are deemed more reliable than what he or she states verbally*
4. Listening involves paying attention to both verbal and nonverbal behavior
 - *Without listening, communication becomes ineffective*
 - *Good listening skills tend to establish credibility and trustworthiness with employees*



Ways to Avoid Groupthink in Small-Group Decision Making

1. Emphasize to each team member that he or she is a “critical evaluator” with the responsibility to express opinions and objections freely
2. Eliminate leadership biases by refusing to express an opinion when assigning tasks to a group
3. Set up a number of independent groups to work on the same issue
4. Encourage each team member to express the group’s ideas with someone he or she can trust from outside the group
5. Express the need to examine all alternatives
6. Invite outside experts into group meetings, and allow members to interact with these experts
7. Assign one person to be “Devil’s advocate”

Source: Irving L. Janis (1972). *Victims of Groupthink: a Psychological Study of Foreign-Policy Decisions and Fiascos*. Boston, MS: Houghton-Mifflin.



Leader-Follower Relationships in Communication

- **Leader-follower congruence** occurs when leaders and followers share the same vision, ethical expectations, and objectives for the company
- ❖ Leader-exchange theory claims that leaders form unique relationships with followers through social interactions
- ❖ Important for ethical leaders to frequently communicate and interact with employees



Ethics Programs and Communication

- ❖ One of the most observable ways of communicating ethical values to employees is through codes of ethics and training in how to act in different situations
 - *Codes of ethics provide important guidelines for employees on how to act in different situations*
- ❖ Leader-follower communication connects followers with those in the company who are most familiar with the firm's ethical values



Power Differences and Workplace Politics

- ❖ Ethical leaders can mitigate power differences through frequent communication with workers
- ❖ Organizational politics is often perceived as trying to achieve one's own ends even if it means harming others in the organization
 - *Gossip, manipulation, playing favorites, and taking credit for another's work*
- ❖ There is a difference between having a high degree of office politics and having good political skills
 - *Political skills can be used to promote organizational goals and help rather than hinder other employees*



Feedback

- Most companies recognize the need for organizational leaders to provide feedback to employees
 - ❖ Informal methods like simple conversation or through more formal systems such as employee performance evaluations
 - ❖ Need for organizational leaders to get feedback from their employees
 - ❖ Employee feedback can be generated in many different ways, including interviews, anonymous surveys, ethical audits and websites



Leadership Styles Influence Ethical Decisions

- The most effective ethical leaders possess the ability to manage themselves and their relationships with others effectively, a skill known as **emotional intelligence**
1. Coercive leader
 2. Authoritative leader
 3. Affiliative leader
 4. Democratic leader
 5. Pacesetter leader
 6. Coaching leader



Leadership Styles Influence Ethical Decisions

- ❖ **Transactional leaders** attempt to create employee satisfaction through negotiating, or “bartering,” for desired behaviors or levels of performance
- ❖ **Transformational leaders** strive to raise employees’ level of commitment and foster trust and motivation
- ❖ **Authentic leaders** are passionate about the company, live out corporate values daily in their behavior in the workplace, and form long-term relationships with employees and other stakeholders



The RADAR Model

- When ethical misconduct or issues arise, the leader should have plans in place to answer stakeholder concerns and recover from misconduct
- ❖ The acronym RADAR is used to describe an ethical leader's duty to:
 - **Recognize** ethical issues
 - **Avoid** misconduct whenever possible
 - **Detect** ethical risk areas
 - **Answer** stakeholder concerns when an ethical issue comes to light
 - **Recover** from a misconduct disaster by improving upon weaknesses in the ethics program



The RADAR Model

R_{ecognize}

A_{void}

D_{iscover}

A_{nswer}

R_{ecover}

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Questions to Ask for Discovery and Assessment Processes

- Does the company have a written code of ethics?
- Have individuals from high-level positions in the organization been assigned overall responsibility to oversee compliance with standards and procedures?
- What are the processes or other means by which ethics are integrated into any or all manufacturing, marketing, distribution, electronic commerce, and general corporate strategy decisions?
- Is there a review process whereby legal, ethical, and business practice considerations are presented, reviewed, or otherwise considered by the board of directors?
- What steps has the company taken to communicate its standards, procedures, and policies to all employees through training programs or publications that describe company expectations?

Adapted from Lynn Brewer, Robert Chandler, and O.C. Ferrell (2006). *Managing Risks for Corporate Integrity* (Mason, OH: Thomson), 76–84.

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Questions to Ask for Discovery and Assessment Processes

- Has the organization taken reasonable steps to achieve compliance by utilizing, monitoring, and auditing systems designed to detect misconduct and by providing a reporting system whereby employees can report without fear of retaliation?
- Is adherence to and implementation of, the code of ethics one of the standards by which the corporate culture can be linked directly to performance measures?
- Has the organization used due care not to delegate substantial responsibility to individuals that it knows does not have the ability to implement organization wide risk-reduction processes?
- Have the standards been sufficiently enforced through appropriate methods, such as discipline of employees who violate ethical policies?

Adapted from Lynn Brewer, Robert Chandler, and O.C. Ferrell (2006). *Managing Risks for Corporate Integrity* (Mason, OH: Thomson), 76–84.