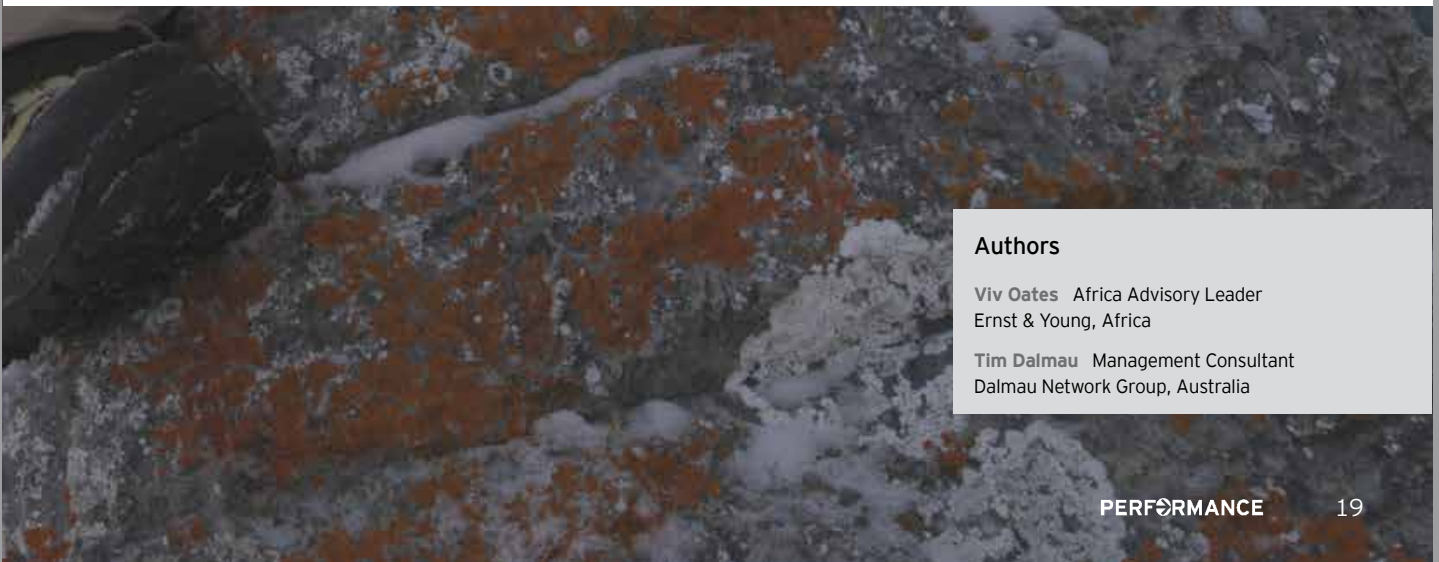Article

Ethical leadership: a legacy for a stronger future

The world continues to be rocked by scandalous activities and unethical behavior among senior people in large corporations. So, it is a good time to ask about the type of leaders that we, as a global society, want and need to lead our countries, institutions and businesses. After all, the consequences of poor decisions can be dramatic and far reaching.

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Ethical leadership starts at the top, with the board of a company. Above all, it must be present in the CEO.

Today, the scope of leaders and the impact of their decisions are so much more expansive and influential than 100, or even 25, years ago. Everything is interconnected: a poor decision made in one part of the world can seriously impact upon the lives of people in another.

1. D. Rossouw and L. van Vuuren, *Business Ethics*, Oxford University Press, 2010.

What do we know about ethical leadership in the corporate context?

Defining ethics and leadership
Ethics can be defined as the body of knowledge that deals with the study of universal principles that determine right from wrong. Ethics concerns itself with the moral principles that govern behavior. It has been stated: "ethics revolves around three concepts, 'self,' 'good' and 'other,' and ... ethical behavior results when one does not merely consider what is good for oneself, but also considers what is good for others."[1]

Leadership can be defined as the art of helping, guiding and influencing people to act toward achieving a common goal.

By combining the two, one quickly derives a simple definition for ethical leadership: the art of helping, guiding and influencing people

to achieve a common goal in a morally acceptable way. "Doing the right thing" underpins the ethical leader's message and, therefore, their style of behavior.

A framework for ethical leadership

At its heart, the term "ethical leadership" presumes that there is a simple basic difference between right and wrong, and that an ethical leader is one who does what is right. Those who are unethical usually do something wrong that exploits someone, some group or something for their own or their company's gain at the "other's" expense.

Ethical leadership is about doing what is right for the long-term benefit of all stakeholders. It is about balancing the organization's short-term goals and longer-term aspirations in a way that achieves a positive result for all those who could be affected by the organization and the decisions of its leader. It is not only about ensuring that others are not adversely affected by the leader's decisions and actions.

Ethical leadership encompasses looking for ways to make sure that others benefit from these decisions. It goes without saying that the more senior the leadership role, the more influence and impact the leader's decisions will have on a broader group of stakeholders. Therefore, the more senior the leader, the more careful and circumspect they should be in reaching decisions. This is the very essence of establishing sound oversight and governance. Structures should be in place to provide the leader with a sounding board and advisory conscience. This will help to prevent them from taking ill-advised decisions and actions that may ultimately cause harm.

There are levels of behavior, from the unethical through to the highly ethical. Building on the work of Dexter Dunphy, Emeritus

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> The years after Nelson Mandela's release from Robben Island and the leadership he provided the South African nation through the 1990s was, at the very least, Level 5 leadership.

◀ Nelson Mandela

Professor in the School of Management at the University of Technology Sydney, we can define them as follows:

Level 1: Rejection. Exploit, use and abuse others, and especially their relative disadvantages, for your own gain, without any regard for consequence.

Level 2: Non-responsiveness. Operate from a position that measures success only in terms of one's own gain; exploit others where there is a power or monetary gain to be had, and have little real concern for the law of regulation.

Level 3: Compliance. Do the minimum required by the relevant law of the land, and continue to exploit others, but minimize consequential risk. In other words, don't get caught out.

Level 4: Efficiency. Regard yourself as a good citizen (individual or corporate), and act in a manner that respects and upholds the morals, values, regulations, customs and styles of wider society; act in a holistic, integrated way across all areas of activity.

Level 5: Proactivity. Be a proactive agent for values-led leadership in the context of wider society in all areas of activity, recognizing this as a point of personal or corporate distinction. Or, be a role model by going "above and beyond."

Level 6: Sustaining. Recognize one's place in the grander scheme of things, and the interconnectedness of everyone as well as everything, and act as a coevolutionary element to foster greater effectiveness for the whole.

In recent times, we can say that Nelson Mandela has been a shining example of a Level 6 ethical leader. The years after his release from Robben Island and the leadership he provided the South African nation through the 1990s was, at the very least, Level 5 leadership.

But these are more than levels of behavior. They are mindsets, attitudes or ways of being. And this goes to the heart of the matter. An ethical leader operates from Level 4, 5 or 6. They have a sense of mission in life. They operate according to their identity, and the values and morals they clearly possess. They are marked out by the perspectives they bring to problem solving, the capabilities they develop in themselves and others, the choices they make and how this is all expressed in their behavior.

We contend that from the perspective of common sense definitions, a leader operating from Levels 1, 2 or 3 is not an ethical leader.

What makes for ethical leadership?

We suggest that ethical leadership finds a home in the help and guidance given to a well-formed group of people around a set of values that works for them and for the wider context of their society, culture, country and organization, in a manner consistent with Levels 4, 5 or 6. Indeed, we would argue that, the closer the leader is operating to Level 6, the more ethical and the more effective their leadership will be. Effectiveness in this context refers to the moral sustainability of a leader's style and influence over time. It is important to note that some leadership is very effective for well-formed groups, but not for wider contexts. The mafia and extreme forms of religious fundamentalism are clear examples.

The more ethical the leader, we contend, the more substantial and long lasting the legacy will be on their organization.

We believe that businesses that operate in an ethical way will ultimately be more successful.

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We also understand that this is very often where many leaders face conflicting challenges. They often have to balance short-term actions (which may not entirely adhere to the individual's ethical standards) with longer-term, and ultimately much more beneficial, strategies. We can imagine a number of scenarios where leaders have to take a course of action that may not be entirely ethical. Nonetheless, it is our contention that ethical leaders always take the right path, even if the consequences are not necessarily palatable to a certain category of stakeholder. Ultimately, the leader will be recognized and rewarded (not always financially) for taking the right path.

Where and why does ethical leadership matter?

The benefits of ethical leadership can be seen most clearly where it is absent; where there is misalignment of the level of leadership and the ethics of the leader on the one hand, and the group they are leading or the wider context on the other. Such conditions foster greed, fraud, confusion, alienation, tension and struggle. Perhaps the clearest example of this in recent years is the Enron scandal and the subsequent unraveling of Arthur Andersen.

There is a special condition that is even worse in its reach and negative consequences. That is when the level of corruption throughout a country is so deep, so pervasive, that it not only tolerates, but actively fosters, corporate corruption. Looking at the latest corruption perception index (CPI) from Transparency International, it is clear that it would be very difficult, if not impossible, for ethical leaders to operate in certain countries. Out of the 184 countries ranked in the 2011 index, only 50 score above the mid-point. It is extremely challenging for a leader to operate at Levels 5 or 6 in environments where corruption is endemic.

Making high-profile appointments

If we accept that ethical leaders ultimately create greater value for organizations, we can then ask: why have there been so many recent events that have exposed the lack of integrity and moral standing of so many high-profile leaders? It seems that almost every day, the press exposes a new leader who, quite frankly, fails the test of conducting the affairs of the organization in a morally sound and defendable manner.

It would appear that ethical considerations are not sufficiently considered and fostered in many organizations. Is it because society has been institutionalized into considering the best person for the role to be the one with the right experience, academic record and networks – without questioning the individual's values?

The following list offers some guidance on how to determine the ethical strength of any leader:

► Does the leader value the establishment, functioning and importance of governance structures?

► Does the leader ensure that these structures are properly informed of the issues facing the organization?

- ► Does the leader take advice and feedback from these structures?

- ► Does the leader actively seek honest feedback from their colleagues, and do their colleagues feel comfortable challenging the leader on significant issues?

- ► Does the leader respond positively to questioning and criticism from their own team?

- ► Is the leader open to suggestions and direct communication from various stakeholders?

- ► Does the leader actively support proper control mechanisms within the organization?

- ► Does the leader communicate the organization's values clearly to all stakeholders and take appropriate action against people who breach these values?

- ► Does the leader lead by example, by living the values?

- ► Has the organization established appropriate, anonymous, feedback mechanisms?

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Strategies to consider

Ethical leadership starts at the top, with the board of a company. In the case of transnational companies, it must be evident in the local country's senior executive group. Above all, it must be present in the CEO.

Such people need a clear, unambiguous set of values and standards that reflect their agreed commitment to a level of ethical leadership (as previously defined). These values need to be set and then articulated in the wider context of the organization, society, culture and regulations of the operating country or environment.

In South Africa, a set of core principles, referred to as the King III corporate governance framework (King III), have been set out. One of the principles is that "the board should ensure that the company's ethics are managed effectively." In this context, King III prescribes the following:

"Building and sustaining an ethical corporate culture requires ethical leadership … it is the responsibility of the board (and executive management) to provide ethical leadership in the company. The board should ensure that the company's ethical standards are clearly articulated and should be seen to support them actively by taking measures to achieve adherence to them in all aspects of the business. In this way, the board would ensure that ethics is an integral part of the way in which a company conducts its business.

"The board's commitment to building and sustaining an ethical organizational culture should be reflected in the company's vision, mission, strategies and operations; its decisions and conduct and the manner in which it treats its internal and external stakeholders ….

"The board assumes ultimate responsibility for the company's ethics performance by delegating to executive management the task of setting up a well-designed and properly implemented ethics management process."

Ethics must, therefore, be managed in a coordinated manner in order to help organizations to act responsibly. According to Professor Deon Rossouw, CEO of the Ethics Institute of South Africa, three make-or-break factors underlie the ability of companies to manage their ethics effectively:

1. The need for visible and audible commitment by a company's leaders to ethical values and standards of behavior within the company

2. The quality of the communication of the values and ethics of the organization

3. The speed, visibility and decisiveness with which a company responds to unethical conduct

Since the 1990s, it has been increasingly popular for companies to assemble ethics committees in order to avoid scandals. We suggest this is Level 3 at best. The espoused values need to find expression among all leaders in the corporation, along with the behavior and governance structures, principles and policies of the organization itself.

An organization can take the following steps to improve its ethical leadership:

► Adopt well-developed business codes of conduct and standard operating procedures to codify behavior across the entire organization

► Set up ethics committees and subcommittees to consider and support critical decisions

► Introduce ethics training programs, and embed them into induction and technical training

► Conduct regular ethics reviews across the organization as part of established reviews, such as internal audit

► Ensure that recruiters and interviewers incorporate ethical considerations into the selection process

► Provide a mechanism for regular (at least annual) feedback on the ethical rating or index of senior employees

► Install and publicize an ethics hotline that can be used to report potential breaches

► Establish a process for dealing even-handedly with breaches across the organization

► Ensure that senior employees understand when to escalate or consult on decisions that have far-reaching ethical consequences

► Encourage employees to openly challenge the leadership on issues that may have serious ethical implications

When establishing these systems and encouraging these behaviors, organizations must be sensitive and understanding toward those from different cultures, and those with different views and beliefs. In doing so, it is important to:

► Understand the legal and regulatory environment in which an entity operates

► Make sure that regional corporate structures are maintained by locals, who have a better understanding of acceptable business practices in the region

► Provide expatriates working in foreign countries with local business conduct training

► Avoid unstable nations and those with poor human rights records

► Ensure that all stakeholders, including vendors and customers, comply with the standards of behavior and ethical conduct espoused by the organization

Conclusion

An organization is much more than an economic unit of value. It is an integral part of the broader societal fabric within which it operates. It should understand the role it plays in the overall advancement of humanity. Its leaders are the embodiment of the organization and, by extension, its collective intellect, soul and conscience. This is a responsibility much greater, and with a much higher purpose, than may initially be apparent. Ethical leaders are those who readily grasp this concept and view their role as stewards of the organization. They understand that they are called upon to leave a legacy that adds to the organization's overall moral standing and strengthens its future as a global asset and an example to others.