HR^N Paper

Ethical leadership

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The CEO of an organisation I used to work for once told me that ethics had no place in business. As the Head of HR I had prompted this response because I was resisting his attempts at fixing the job evaluation process to increase the pay of one of his lackeys, who was doing a blatantly made-up, cobbled-together, non-job. Some years earlier in a different organisation, I was involved in decommissioning an old building and selling off the various unwanted fixtures and fittings to staff who were submitting closed bids for items they wanted. The CEO insisted that the bids for some of the items of particular interest were opened early so he could outbid them. These two instances were many years ago but I still find them both breath-taking in their audaciousness and the complete lack of regard for ethical behaviour from leaders of the organisation.

I could take solace from the fact that these were both a long time ago, and involved individual rather than widespread corporate morality and behaviour but the headlines continue to suggest that poor behaviour from leaders remains a current issue. In fact there has been a regular drip-drip of media stories that suggest organisational leaders have been turning a blind eye to what is right in favour of what is profitable or expedient. The VW emission scandal is the latest in a very long line of eyebrow raising corporate misbehaviour, which over just the last few years has included:

- The 2013 horsemeat scandal, which saw several suppliers dropped by major supermarkets and a 43 per cent drop in burger sales.
- The Libor-fixing scandal, which involved banks falsely inflating or deflating their rates so as to profit from trades, or to give the impression that they were more creditworthy than they were. In June 2012, multiple criminal settlements by Barclays Bank revealed significant fraud and collusion by member banks connected to the rate submissions.
- The April 2010 Deepwater horizon oil spill, which resulted in BP and its partners being blamed for a series of cost-cutting decisions and an insufficient safety system. Federal criminal charges were made and BP pleaded guilty to 11 counts of manslaughter, two misdemeanours, and a felony count of lying to Congress and in July 2015, BP agreed to pay $18.7 billion in fines, the largest corporate settlement in US history.
- Illegal phone hacking by UK national newspapers, which saw multiple prosecutions and the closure of the News of the World.
- The MPs’ expenses scandal of 2009, which resulted in a large number of resignations, sackings, de-selections and retirement announcements, together with public apologies and the repayment of expenses. Several members or former members of the House of Commons, and members of the House of Lords, were prosecuted and sentenced to terms of imprisonment.

On the one hand, it is seemingly obvious that these behaviours were not only wrong but also high risk in terms of personal and organisational reputation and financial performance. Whilst some may be indicative of outright criminal activity (as appears to be behind the horsemeat scandal), others are the result of an embedded corporate culture that has allowed unethical (and sometimes illegal) behaviours to flourish. In such circumstances there appears to be a distinct absence of appropriate leadership that ensures individuals do not pursue individual or organisational gain at the expense of ethics. On the other hand, the commonality of such scandals suggests significant forces operate to encourage such wrongdoing. It has been suggested that when managers allow the pursuit of money or firm reputation to dominate, an amoral or immoral organisational character emerges in which attention to pride, job satisfaction, and other internal motivators is forsaken and excessive attention to material concerns thrives (MacIntyre, 1985; Moore, 2005).

One aspect of ethical behaviour which is often conveniently ignored is importance of restraint when setting your own rewards. Executive pay has grown since the 1990s from 60 times that of the average worker to almost 180 times, according to the High Pay Centre. A report in The Telegraph also highlighted a jump of 32 per cent in executive pay in 2010 compared to seven per cent across the FTSE 100 and only two per cent increase in workers' salaries. The figures were even more stark in the top 25 companies, where chief executives saw their pay rise by 86 per cent.

It is difficult to argue that such discrepancy in rewards doesn't affect workers' trust in their management. Small wonder then, that the latest CIPD data for autumn 2013 showed that around a third of employees said they personally do not trust their senior managers and a third say that employees in general think trust is weak (CIPD, 2013). Results are worse in the public sector and tracking data suggests that public trust in big businesses is in decline, which the CIPD suggest has further implications for individuals' trust in their leaders.

Concerns about trust need to be considered against the raft of evidence that has found trust improves employee performance; raises motivation and positive attitudes, lowers costs (due to higher productivity, lower wastage, reduced employee turnover, reduced grievances and other negative behaviours etc.); enhances pro-social and citizenship behaviours; enhances knowledge sharing and innovation; and improves co-operation (Searle and Skinner, 2011, in CIPD, 2012). Low levels of trust affect productivity and performance in part because greater resource needs to be expended by managers on checking staff and by employees on covering their backs. Trust is also associated with the willingness to take risks and therefore innovate.

Hope-Hailey et al (2012, in CIPD 2012) concluded that leadership, culture and behaviour all contribute to levels of trust. Trust is enhanced when employees are treated fairly, and when leaders walk the talk on corporate values. The CIPD (2012) have asserted that ethical leaders are more likely to create a climate of trust because they tend to demonstrate the key characteristics necessary for trust:

- benevolence – a concern for others beyond their own needs and having benign motives;

- integrity – adherence to a set of principles acceptable to others encompassing fairness and honesty; and
- predictability – a regularity of behaviour over time.

Similarly, the Edelman Trust Barometer (Edelman, 2016) places integrity as given the most stated importance of five attributes of trust.

Academic research appears to suggest that ethical leaders influence followers through a range of levers, of which trust is only one. Firstly, ethical leaders exhibit trustworthy behaviours and act with the interests of employees at heart. As a result, followers develop strong relationship attachments to such leaders which gives them greater personal power to influence follower behaviour. Secondly, ethical leaders create an ethical climate through modelling what is appropriate behaviour; communicating expectations of others; devising policies which make ethical expectations explicit; and holding employees to account for their behaviour (see, for example, Brown and Trevino 2006).

Research also indicates that unethical and unjust behaviour tends to have a trickle-down effect: when organisations, processes, or practices are perceived as unfair and/or unethical, individuals become less likely to behave ethically (Cropanzano and Stein, 2009, in Fyke and Buzzanell, 2013). So ethical leaders create ethical followers.

On the whole, people prefer to work for ethical organisations, so ethical leadership is also associated with organisational commitment and job satisfaction (Martin and Cullen, 2006; Brown and Trevino, 2006). Further, ethical leadership results in employees feeling a greater degree of psychological safety, ie people feel comfortable expressing difference and concerns, and voicing ideas (Walumbwa and Schaubroeck, 2009). These are important factors for innovation and creativity.

There is therefore a seemingly overwhelming case for ethical leadership. There is plenty of evidence that suggests ethical leadership generates positive gains for organisations in addition to preventing the losses associated with wrongdoing.

The question then is what can organisations do to promote ethical leadership? It might seem obvious that codes, standards and training would be part of any approach but the evidence suggests that they are unlikely to be enough in themselves. For example, Seeger and Kuhn (2011, in Fyke and Buzzanell, 2013) have noted that principled moral obligations, ethical codes, or normative standards by no means guarantee compliance, citing the example of Enron which had extensive ethical codes.

Training too does not appear to simply deliver the solution it promises. Lampe and Engelman-Lampe (2012) point out that although business students in the USA receive ethics training in the form of philosophy, case studies, religion and moral dilemmas, they still have the highest rate of cheating amongst college students from any other discipline. They go on to argue that mindfulness training may help students understand better how their minds work when making ethical or non-ethical decisions. Seeger and Kuhn (2011) highlight the difficulties of squaring pressures on efficiency and demonstrating Return on Investment with ethical standards.

It would seem a no-brainer for the HR profession to play a key role in helping organisations confront and resolve these difficulties but the profession appears to be disappointingly reticent to come forward in this regard. The CIPD community is currently debating what it is to be an HR professional. Whilst there seems to be unambiguous support for the concept of HR professionals demonstrating judgement, updating their specialist know-how and understanding the business, there has been starkly less support for constructs that have ethics at their heart (what it is to be professional, using knowledge for the good of society and a commitment to something bigger than self through the abandonment of self-interest).

With all that we know about the impact of ethics on the people in organisations and on their willingness to work hard, to innovate, and to do so in appropriate ways, an HR profession that fails to act on ethical issues is not just missing a trick, but much worse, is potentially compliant with a view that ethics has no place in business.

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More on this topic

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Workshop

Collective ethical leadership
Tuesday, 21 June 2016, London

Over several decades, researchers in business ethics have found a positive relationship between corporate social performance and corporate financial performance. In addition, we know that senior managers set the ethical 'tone at the top' and that external regulators and internal boards can influence formal ethical business programmes.

But surveys consistently show there is a gap between the stated ambition of operating as an ethical organisation and the actual experience of employees witnessing behaviours by line managers and co-workers which fall short.

So what more can HR functions be doing to help integrate ethical leadership practice into everyday ways of working at all levels to become part of the organisation culture?

In this briefing event we will review the research and present practical case study evidence on claims that person-centred leadership (as opposed to process or task-centred leadership) can transform leadership behaviours across an organisation.

Topics for discussion include the evidence of the benefits of ethical leadership, the mismatch between aspiration and reality, the styles of leadership that can make a difference and how they can be integrated into culture and practice.

This event will be facilitated by Penny Tamkin and Alison Carter.

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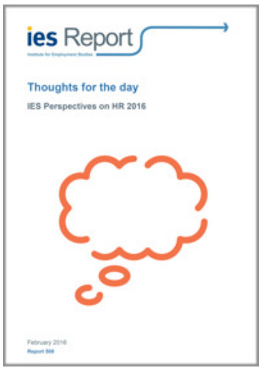

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