

Developing Ethical Leadership: People over Profit

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Abstract

In several developing countries applying ethical concept in business is often considered disadvantageous since the practice of corruption and gratification is widespread. However new breed of corporation implementing ethical leadership model have shown the approach to be beneficial and leads to growth and financial success. The objective of this paper is to show what ethical leadership is all about and its positive impacts on firm performance and reputation.

Keywords: ethical behavior, corruption, ethical leadership

Introduction

When making business decisions, ethical behavior must not be ignored. Basically, ethics is moral standards about right and wrong, good and bad for a company, promoting ethical behavior in practical terms means avoiding breaking the law, avoiding actions and activities causing a lawsuit from any stakeholders, and avoiding actions and activities that could tarnish the company's image. Ignoring ethical behavior will bring negative consequences. Employees' morale will deteriorate since they have to carry the psychological burden of working for a company that has a bad reputation. Employees can also feel uncomfortable and experience mental fatigue since they have to answer questions and complaints. The company must also spend a huge amount of money to regain its reputation, which surely reduces efficiency. The public might no longer trust a company exhibiting unethical behavior. History has shown that ignoring ethical behavior destroys a company much faster than when it develops and implements a wrong strategy but still adheres to ethical behavior.

Ethical behavior consists of corporate ethics, work ethics, and individual ethics (Susanto, 2013). Corporate ethics address the relationship between a company and its larger environment. Work ethics address the relationship between a company and its employees. And individual ethics address the relationship among employees.

In promoting ethical behavior, a leader in a company must become a role model for the employees. If a leader pays special attention to the needs and interests of stakeholders in an effort to fulfill her responsibility to customers, suppliers, and other stakeholders, it will promote loyalty, honesty, and productivity. There is a link between business activities and activities outside the workplace that influence not only employees, but friends, family, and society as well. Business decisions often have impact beyond work boundaries. Therefore, we can say that ethical behavior in doing business is part of not only corporate norms, but societal norms as well.

A leader can then practice what we call ethical leadership. An ethical can be defined as "leadership that is directed by respect for ethical beliefs and values and for the dignity and rights of others" (Watts, 2008). It is thus related to concepts such as trust, honesty, consideration, charisma and fairness (Brown et al., 2005). Ethics is at the center of leadership because the goal of a rational leader is to merge the interests of all parties so that everyone benefits and the organization prospers. Ethical leaders are those who are honest and trustworthy and have integrity in dealing with others, pay attention to all stakeholders, build community, respect the individual, and accomplish silent victories (DuBrin 2015). Wu and Kwan (2013) found that CEO ethical leadership positively influences corporate social responsibility via organizational ethical culture.

This paper will discuss how ethical leadership can be implemented and how it is beneficial for the growth and financial success of a business.

Ethical Behavior and Widespread Corruption

However, enforcing ethical behavior could be very challenging, especially in countries where corruption is rampant. According to Corruption Perception Index (CPI) published by Transparency International (TI), the global average score is a 43, indicating endemic corruption in a country's public sector. Score 100 indicates that a country is very clean from corruption, while score 0 means that a country is highly corrupt. CPI itself is defined as a ranking of countries according to the extent to which corruption is believed to exist. The corruption perception index was created in 1995 by Transparency International.

The Challenges lies from the belief that corrupt practices are "necessary evils" if businesses want to obtain a faster process of permits and less interference from the government officials (Velamuri et. al., 2017). The law enforcement for those who conduct corrupt practices is weak in many corrupt countries. Many corrupt officials and businesspersons will go unpunished. In such circumstances, businesses perceive that their sustainability will be threatened if they do not follow any corrupt practices.

However, any corrupt practices should never be justified whatsoever since it creates high economic, social, and political cost. Companies in places where corruption is widespread should see ethical behavior as the opportunity to enhance their reputation.

The importance of ethical behavior has been recognized by many institutions and civil societies around the world. Magazine such as Forbes and institution like Ethisphere Institute release the list of Most Ethical Companies. When publishing such list, considerations include such as Ethics and Compliance Program, Corporate Citizenship and Responsibility, Culture of Ethics, Governance, and Leadership, Innovation and Reputation.

Ethical leadership and Firm Performance

There are some factors that can be developed by ethical leaders in order to thrive ethical behavior to a company (Susanto, 2010). First is a strong company culture. A company's culture is a set of values and norms guiding employees' actions. A company's culture significantly contributes to ethical behavior. In promoting ethical behavior, internalization is needed as part of the culture development. The internalization process consists of five steps: awareness, understanding, assessment, acceptance, and implementation. These five steps must be done in sequence.

Second is the trust among the organization's members and between the company and its stakeholders. Third is the promotion of employee relationship management. And forth is promoting deontology principle. Deontological Ethics is an approach to Ethics that focuses on the rightness or wrongness of actions themselves, vis a vis teleological approach which puts emphasis on the goal of the action rather than the process itself to the rightness or wrongness of the consequences of those actions.

Ethical behavior developed by ethical leaders will promote trust between a company and its stakeholders. Paying serious attention to ethical behavior will create the impression that the company supports such a thing. Company policy is usually documented in a code of conduct. Today, as the world becomes more globalized and the demand for transparency is increasing, a code of conduct becomes more important. Ethical behavior will thrive when there are agreements and understandings regarding behaviors that are considered right or wrong, as well as ways to help resolve ethical problems.

Ethical behavior can enhance company's reputation. Reputation is a strategic asset that can elevate competitive advantage. By behaving ethically, a company will gain a strong support from the community, who has reaped the benefit from activities conducted by it. Should there be any accusation regarding company's practices, community will tend to be by its side.

A strong reputation could also help a company minimize negative effects should any crisis occur. Employees working in an ethical company will feel proud to be the part of it. In turn, this sense of pride will enhance their loyalty so that they will feel more motivated to work hard towards company success. Job satisfaction among employees will also increase, as proposed by Kim and Brymer (2011). Walumbwa

and Christensen (2011) also suggest that ethical leadership was positively and significantly related to employee performance.

Companies promoting ethical behavior could strengthen their relationship with the stakeholders. As a result, stakeholders will feel more comfortable when dealing with the companies. From the consumer point a view, consumers will prefer buying products produce by ethical companies.

Ethical companies will also have the opportunity to set a premium price for their customers. At the same time, customers are still willing to buy their products since their belief that they can rely on the quality and safety.

These advantages in turn enable a company to enhance its financial and non-financial performance in the long term. The existence of the company can also be maintained. This could only be achieved in the longer term after leaders pay their attention to welfare of the stakeholders. In other words, people first, and provides will follow. In terms of the company's relationship with financial investors, ethical businesses will obtain a greater access to any financial resources while at the same time they still keep themselves away from any unethical procedure.

Conclusion

Despite operating in a widespread corruption environment, ethical behavior must be sustained. In order to enforce it, an ethical leadership should be put in place since it brings many benefits, which lead toward strong financial performance. To foster ethical leadership, a company needs a strong culture, trust among executives and employees, promote employee relationship management, and promote deontology principle.

Ethical leadership could also be used as a tool to select the right people. In an ethical company, those who do not adhere to ethical values will not feel comfortable and will not feel relaxed.

Ethical leadership is about treating people decently. The first step that a company must do is to eliminate discrimination in any kind, whether it is based on religion, gender, disability, and so on.

However, financial performance is only the last effect. Further research is needed to investigate how this financial performance, which is actually the indirect impact of ethical leadership practices, is connected with the company policy of not undermining business entity; whether it could help selecting professional partners; and how it helps the company instilling a strong system.

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