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CANADIAN FORCES COLLEGE / COLLÈGE DES FORCES CANADIENNES
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EXERCISE/EXERCICE ...

New Horizons

Ethical Leadership is the Source of Superior Organizational Success

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Abstract

Corporate Leaders, organizational consultants, and researchers are unanimous in their assessment that unethical conduct by corporate leaders is wide spread and it is undermining the stability of the market place. However when the alternative is considered, ethical leadership, many are hesitant to seriously adopt such a philosophy wholeheartedly. This paper will examine ethical leadership and reveal the advantages available to an organization that chooses to institutionalize ethical leadership. Evidence will be presented that ethical leadership will help protect an organization from damaging prosecution through improved legal compliance, that it will improve internal organizational activities and dynamics by facilitating the development of an ethical organizational culture, and that it will improve organizational success by increasing follower-leader trust. Ethical leadership will lead to significant organizational benefits.

“... ethical business leadership requires not only harvesting the fruit we can pluck today; not only investing in the small trees and experimental hybrids that won’t yield a thing in this quarter or the next, but also caring for the soil that allows us to produce such a rich harvest in the first place.” Willard C. Butcher, May 15, 1987.

On May 15, 1987, Willard C. Butcher, retired chairman of the Chase Manhattan Corporation delivered a speech at the A.B. Freeman School of Business commencement.¹ He spoke on the decline of ethical behavior throughout American society and issued the above quoted warning that ethical leadership had strategic impact. In his presentation he noted several widespread trends of behavior that according to him were undermining the security of U.S. institutions. The first trend was ethical relativism, a perspective that viewed unethical behavior as justified if such an unethical practice was previously performed by someone else. A second trend, which Butcher addressed, was focused on short-term profits, even at the expense of long-term impact such as corporate reputation. A third trend was the idolization of those found guilty of unethical conduct.²

Kanungo and Menonca state that those who are in positions of leadership govern the moral caliber of society. The conduct of leaders has direct affect on “the strengthening or deterioration of the moral fiber of society.”³ Since the leader is the soul of the organization, the primary duty and responsibility for providing the proper direction and the high standards of performance rest with him or her.⁴ Joe Forehand, chairman and chief executive officer of one of the world’s largest consulting firms, Accenture Ltd.,

¹ Willard C. Butcher, *The need for ethical leadership: Profits alone are not the answer*, a speech given at the A.B. Freeman School of Business commencement, (New Orleans: May 15, 1987).

² *Ibid*, (Butcher named Reg Jones of General Electric, Irving Shapiro of DuPont, David Rockefeller [Butcher’s predecessor at Chase], and Jim Burke of Johnson & Johnson as examples of ethical corporate leaders.)

³ Rabindra N. Kanungo, and Manuel Mendonca, *Ethical Dimensions of Leadership*, (London: Sage Publications, 1996), p6.

⁴ *Ibid*, p 3.

stated that the implementation and enforcement of statutory regulations and corporate policy are a starting point; however “ nothing short of a return to basic moral values will enable business – and the professions that serve it – to regain the public trust lost in corporate scandals.”⁵

Butcher identified three trends, which he viewed as forces that were eroding the foundation of organizations – their integrity. His proposed solution to facilitate a turnaround of these three trends was ethical leadership. Kanungo, Menonca, and Forehand support Butcher’s position that ethical leadership is the key to rebuilding ‘the moral fiber of society.’ Though this view of ethical leadership’s potential impact may seem intuitive, does such leadership in fact provide an organization with tangible benefits? It is the contention of this paper that ethical leadership will help protect an organization from damaging prosecution through improved legal compliance, that it will improve internal organizational activities and dynamics by facilitating the development of an ethical organizational culture, and that it will improve organizational success by increasing follower-leader trust. In short, ethical leadership will lead to significant organizational benefits. To demonstrate this assertion, this paper will review various sources of research that have identified these three general benefits as the resultants of ethical leadership and discuss their significance for organizations.

⁵ Editorial, *Globe and Mail*, Feb 3, 2003, p B-12.

Ethical Leadership will help protect an organization from damaging prosecution through improved legal compliance.

To discuss the topic of compliance, the extent of non-compliance and its increasing cost to corporate leadership will first be examined. This will be followed by a review of research that evaluates the role ethical leadership can play in minimizing the negative impact of being non-compliant.

White-collar crime is conservatively estimated to cost North American businesses more than \$100 billion a year. This is 'conservative' because in 1992 the U.S. General Accounting Office projected fraud in health care services alone to be between \$20 and \$75 billion.⁶

The lack of compliance with rules and regulations is significantly impacting Western economies. Della Costa estimates that if one were to equate the losses suffered as a result of illegal or unethical practices to jobs, then using a standard salary of \$80,000 U.S. per year per employee, the resultant loss would be 12.5 million jobs.⁷ The disease of non-compliance is not limited in its locality. The recent demise of companies such as Enron and WorldCom due to unethical business practices have had worldwide impact due to their global business relationships. Why is compliance so difficult and can ethical leadership foster improved compliance?

A variety of reasons have been identified as to why organizations have struggled with being legally compliant. The first is the distancing of employees from supervisors as a result of technology, organizational downsizing and flattening, and increased job specialization.⁸ The second is the distancing of organizational members from their

⁶ John Della Costa, *The Ethical Imperative: Why Moral Leadership is Good Business* (Toronto: Harper Collins Publisher Ltd., 1998), p 65.

⁷ *Ibid*, p 66.

⁸ *Ibid*, p 77.

respective clients or customers also as a result of technology, but increasingly due to distributed operations. If, as Al Gini has stated, ethical behavior is an outgrowth of interpersonal contact, then as the frequency of contact between followers and leaders is reduced then so too will the influence to act ethically.⁹ The third reason is that the cost of being compliant is sometimes viewed as more expensive than cutting corners, for example the Ford Pinto case. Ford estimated that the cost of repairing the defective gas tank design would exceed the costs expected due to litigation, so the company decided to not repair the defect.¹⁰ The fourth reason is the widely held view that “maximization of profits, sales or market share,” is the primary aim of business.¹¹ Pressure for performance has forced senior managers to refrain from questioning how results have been achieved, which has led to an unstated permission for quasi-legal and illegal activity to be conducted.¹²

However, in November 1991, with the intent of encouraging U.S. corporations to more vigorously pursue the implementation and improvement of corporate ethics programs, legislation entitled ‘the U.S. Federal Sentencing Guidelines’ was enacted.¹³ The legislation was primarily a manual to assist judges in assessing and sentencing corporations involved in specific criminal activity. Several aspects of the legislation were of particular importance for business leaders. First, the legislation made it clear that

⁹ Al Gini, *Moral Leadership and Business Ethics*, in *Ethics & Leadership Working Papers* (Chicago: Academy of Leadership Press, 1996), p 4.

¹⁰ Rogene A. Buchholz, and Sandra B. Rosenthal, *Business Ethics: The Pragmatic Path Beyond Principles to Process* (Upper Saddle River: Prentice Hall, 1998), p 47.

¹¹ George Chryssides and John Kaler, *Essentials of Business Ethics*, (London: McGraw-Hill Book Company, 1996), p 7.

¹² Dennis M. Groner, “Ethical Leadership: The Missing Ingredient,” *National Underwriter*, Volume 100, Issue 51 (December, 1996) p 42.

¹³ Dove Izraeli and Mark S. Schwartz, “What Can We Learn From the U.S. Federal Sentencing Guidelines for Organizational Ethics?,” *European Institute for Business Ethics*, p 2/16.

<http://www.itcilo.it/english/actrav/telearn/global/ilo/code/whatcan.htm> , accessed 28 April 2003.

organizations would be held accountable for the illegal activities of their respective leaders and in addition that the leaders would be held personally accountable for the non-compliant conduct of the organizations they led. Second, that sentencing for those found guilty could be reduced by as much as 95% if the firm could provide proof that ‘an effective compliance program’ had been in place prior to the criminal activity.¹⁴

In January 2003, in a dramatic response to recent corporate scandals, the U.S. Sentencing Commission significantly increased the penalties for ‘white collar fraud offenses,’ and for those found guilty of obstructing the prosecution of corporate crime. In doing so, the commission put officers and directors of publicly held corporations on notice that corporate leaders found guilty of defrauding clients and or shareholders would be subjected to severe penalties – fines of more than \$1 million U.S. and prison sentences of more than 10 years.¹⁵

The implementation of such legislation has not been limited to the U.S. Europe and Australia have also followed suit. In addition, Canada has recently begun to put pressure on companies to develop compliance systems through the development of a “Consultation Draft Bulletin from the Canadian Competition Bureau, which regulates the Canadian Competition Act.”¹⁶ The bulletin makes recommendations for the implementation of compliance programs that are more extensive than those stipulated under the U.S. Guidelines. The implementation of such regulating legislation is a growing worldwide trend, which is increasing the liability of corporate leaders, thus pushing the need for a more concerted push to develop ethical leadership.

¹⁴ Izraeli and Schwartz, p 2/16.

¹⁵ U.S. Sentencing Commission New Release, *Sentencing Commission Stiffens Penalties for White Collar Criminals*, (Washington, D.C.: Jan 8, 2003), <http://www.ussc.gov/PRESS/rel010803.htm> accessed 28 April 2003.

¹⁶ Izraeli and Schwartz, p 9/16.

It is important to note that numerous surveys taken since 1991 have shown that thousands of companies, not only in the U.S., but also internationally, are responding to the Guidelines by becoming more proactive in the development and implementation of compliance systems through corporate ethics programs.¹⁷ Yet, how effective are these ethics-based programs at cultivating more compliant organizations?

In an article written for the *Harvard Business Review*, Paine states that it is rare that one lone actor is the sole source of corporate misconduct, but rather it is more likely the result of a systemic problem involving the corporate culture.¹⁸ In her article, Paine reviews the activities of several companies, which responded to the U.S. Guidelines by implementing ethics programs. Many of these companies relied upon corporate lawyers for the development and implementation of programs to ensure legal compliance. The programs that were developed emphasized control of employee behavior through increased surveillance, more rigid control and the implementation of penalties.¹⁹ Yet, in the current environment of a downsized and distributed workforce such control measures suffer from limited effectiveness. While ethics programs need to have a system of discipline incorporated into them, relying solely on the fear of retribution as a motivator is marginally useful for stimulating high levels of legal compliance.

It is Paine's contention that a compliance program based upon integrity will not only ensure that the corporation is compliant with applicable regulations, but it will also serve to inspire. Such a program would incorporate many of the same structures as a legalistic compliance program, for example: "a code of conduct, training in relevant areas

¹⁷ *Ibid*, 4/16.

¹⁸ Lynn Sharp Paine, "Managing for Organizational Integrity," *Harvard Business Review*, (March-April, 1994), p 106.

¹⁹ *Ibid*, p 109.

of law, mechanisms for reporting and investigating potential misconduct, and audits and controls to ensure that laws and company standards are being met.”²⁰ Yet, such a program would also encompass an integrity-based portion that facilitates independent responsible decision-making, as well as identifying and inculcating the corporate ethos into “the patterns of thought aiii

Ethical leadership will improve internal organizational activities and dynamics by facilitating the development of an ethical organizational culture.

Earlier, Meaney was quoted as making a link between ethical leadership and the development of an ethical culture. To better understand this link the manner in which organizational culture evolves will be investigated. Following which the impact of ethical leadership upon the growth of such a culture will be determined and then the benefits, which are the product of such a culture, will be identified.

The *Oxford Dictionary* defines culture, as it would pertain to an organization, as “customs, achievements, etc. of a particular civilization or group.”²³ Della Costa adds that it also engenders “the quality and qualities of relationship[s]” among members of the organization.²⁴ Della Costa makes three points about corporate culture, which are important for appreciating its significance. The first is that organizations do not possess culture, but rather they are a culture. The formal policies and procedures and unwritten dos and don’ts, the formal and informal methods of communication, the atmosphere of the work environment, and the means and modes by which the organization communicates with the outside world, be they customers, suppliers, or partners, all constitute an organization’s culture.²⁵ The second is that all cultures feature an ethical orientation. Some orientations are quite basic in terms of their moral development even to the point of complete repression of ethical values, while others are quite advanced. The third is that due to the natural inclination of people to establish some sort of ethical

²³ *The Oxford Pocket Dictionary of Current English*, ed by F.G. and H.W. Fowler, and by Della Thompson, (Oxford: Clarendon Press, 1996).

²⁴ Della Costa, p 221.

²⁵ *Ibid*, p 220.

code of behavior, nonethical behavior is not natural and “involves conscious corporate choice and therefore holds the greater accountability.”²⁶

In their paper on ethical work climates, Victor and Cullen state that there exists a convincing body of data, which asserts that an individual’s moral and ethical behavior is governed by more than just personal characteristics; it is also significantly influenced by social factors. Terms such as ‘moral atmosphere,’ ‘just community,’ and ‘ethical climate’ have been coined to describe the environment in which an individual works and by which his behavior is influenced.²⁷ The development of such climates occurs when normative systems are ethically based and become institutionalized. Climates are a function of “the ethical criteria used for organizational decision making” and of “the locus of analysis used as a referent in ethical decisions.”²⁸ The ethical climate will determine what issues are of ethical importance to the organization, what manner of rationale will be applied to resolving those issues, and what ethical orientation those resolutions will reflect.²⁹ The authors identified three primary determinants of ethical culture: societal norms; organizational form; and firm-specific factors, with the most important being its leadership. Since organizations consist of individuals who are products of their society, they bring with them into the group their respective sub-societal ethical norms. Thus, an organization’s culture will be influenced by the mixing of the various norms its members possess.³⁰ In their article on values, Posner and Schmidt support this point by quoting the renowned consultant Peter Drucker, who stated, “that an

²⁶ *Ibid*, p 221.

²⁷ Bart Victor, and John B. Cullen, “The Organizational Bases of Ethical Work Climates,” *The Administrative Science Quarterly*, Volume 33 (1988), p 103.

²⁸ *Ibid*, p 104.

²⁹ *Ibid*, p 105.

³⁰ *Ibid*, p 119.

organization's culture is a function of shared values."³¹ Posner and Schmidt further amplify the importance of values stating that not only has it become generally accepted that personal and organizational effectiveness is directly governed by values, but also that they are the key driver of corporate success.³² There is strong evidence that the structural characteristics of an organization may also affect the type of ethical culture that evolves.³³ Finally, the specific organizational evolutionary history and the experiences of its members will also affect the overall ethical climate.³⁴

Morgan supported the work of Victor and Cullen when he also identified the influence of role models, or leaders, as a major factor in the behavior of employees. In fact, referring to four separate surveys, Morgan states that there is widespread agreement that immediate superiors are the primary stimulants of ethical or unethical behavior.³⁵ Notwithstanding that the structural characteristics and the history of an organization can impact the ethical climate, it is primarily corporate values that determine the culture and values are primarily determined by the organization's leadership. If the leadership establishes, through statement and example a value system that promotes ethical conduct, a moral culture will evolve that serves to standardize organizational behavior in accordance with ethical practices.

So, what benefit does an ethical culture offer? Parry conducted a survey of New Zealand managers in which he had them rate their own annual personnel reports based upon displays of leadership and their perceptions of their demonstrated integrity.

³¹ Barry Z. Posner, and Warren H. Schmidt, "Values and the American Manager: An Update Updated," *California Management Review*, Volume 34, Issue 3 (Spring, 1992) p 81.

³² *Ibid.*

³³ Victor, and Cullen, p 120.

³⁴ *Ibid*, p 122.

³⁵ Ronald B. Morgan, "Self-and Co-worker Perceptions of Ethics and Their Relationships to Leadership and Salary," *Academy of Management Journal*, Vol. 36, No. 1, p 200.

Although self-analysis as a source of research data has limitations, some interesting correlations were observed (see Figure 1).³⁶

Correlations between Perceived Integrity and Leadership Outcomes	
Satisfaction with leadership	0.61
Perceived leader effectiveness	0.57
Motivation Organizational	0.56
Effectiveness	0.38
Extra Effort	0.31
'Bottom-line' achievement by the organization ³⁷	0.21

Figure 1

First, the levels of perceived integrity reported amongst the managers were as high as those reported by managers in North America in a similar survey, and also similarly, the levels were not affected “by age, gender, ethnicity, or industry category.”³⁸ Second, it was observed that there was a high instance of organizational satisfaction with managers who were perceived to be exercising ethical leadership. This aspect is particularly significant for those managers who are seeking to enhance their perceived value to an organization. Third, there was a significant correlation between perceived leader effectiveness and ethical leadership practices, indicating to the senior leadership of an organization that lower level managers who exercise ethical leadership are more likely to be effective in their duties than those who do not. Fourth, there was a similarly strong correlation between ethical leadership and increased motivation on the part of subordinates. Last, there were also correlations with increased leader effectiveness, increased subordinate effort, and improved ‘bottom-line’ achievement by the

³⁶ Ken Parry, “Integrity Rules,” *New Zealand Management*, Volume 47, Issue 6 (July, 2000), p 38.

³⁷ *Ibid.*

³⁸ *Ibid.*

organization. In conclusion this survey noted that ethical leadership resulted in “increased effectiveness due to a strengthened organizational culture, lower turnover levels, and increased employee effort.”³⁹

Another benefit resulting from ethical culture was identified through research performed by fraud investigators from *Ernst & Young*. In their research, the fraud examiners identified three essential pre-conditions for fraud: opportunity, motivation, and behavior rationalization. According to Selley, behavior rationalization can be significantly influenced by the type of climate that exists within a firm. If the atmosphere is highly ethical then employee fraud will be reduced.⁴⁰

An ethical culture is a naturally occurring phenomenon within an organization; however, the level of moral development varies in accordance with a variety of determinants with the most significant being leadership. Leadership drives organizational values, and values determine organizational culture. An ethical culture identifies what issues are important, and how those issues will be resolved. It will also stipulate standards of practice. As ethical leadership facilitates the development of an ethical culture, an organization will experience increased corporate satisfaction with leadership; increased perceived leader effectiveness; and increased organizational motivation, effectiveness, effort, and overall accomplishment.

Ethical leadership will improve organizational success by increasing follower-leader trust.

The third general benefit of ethical leadership is increased trust between the follower and the leader. In discussing this point, the concept of trust will first be defined

³⁹ *Ibid*, p39.

⁴⁰ David C. Selley, “Ethics as a Management Tool,” *Canadian Business Review*, Summer (1994), p 4-74.

followed by a discussion of how trust is produced and what role ethical leadership plays in its production. Last, the specific benefits of follower-leader trust will be identified.

... a recent survey suggested that almost two-thirds of employees report having little or no trust for their employers Another survey found that over 52% of employees don't trust the management of their organization and don't believe the information that they receive (Katcher, 2002). Similarly, 55% of employees in Robinson and Rousseau (1994) reported that their employer had violated the psychological contract, resulting in significantly reduced trust.⁴¹

As indicated by these statistics, a lack of trust in leadership is an interpersonal dynamic, which is afflicting many organizations. What is trust? Trust is defined in the *Oxford Dictionary* as “a firm belief in the reliability, truth, or strength ... of a person....”⁴² According to this definition, the trust one person has in another is based upon demonstrated character traits. However, as one reads through the various points of view on trust, it becomes evident that there is a wide variation of opinion among scholars as to what is trust and what causes it to develop.⁴³ In their meta-analytic study of four decades of research on the topic of trust, Dirks and Ferrin use Rousseau's definition – trust is “a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another.”⁴⁴ In other words, trust, in the follower-leader context, involves a decision to allow one's self to become vulnerable to the actions and will of the leader.

The basis of this trust, though, is seen to stem from two qualitatively different yet complementary theoretical perspectives. Dirks and Skarlicki describe these two

⁴¹ Kurt T. Dirks, and Daniel Skarlicki, “Trust in Leaders: Existing Research and Emerging Issues,” (unpublished contribution to *Trust Within Organizations*, ed by R. Kramer & K. Cook, Russell Sage Foundation), p 19.

⁴² *The Oxford Pocket Dictionary*

⁴³ Kurt T. Dirks, and Donald L. Ferrin, “Trust in Leadership: Meta-Analytic Findings and Implications for Research and Practice,” *Journal of Applied Psychology*, Volume 87, Number 4 (2002), p 612.

⁴⁴ *Ibid.*

perspectives as relationship-based and character-based.⁴⁵ The relationship-based perspective views trust as a product of the personal relationship that exists between the leader and the follower in which issues of care and consideration in the relationship are central.⁴⁶ When followers perceive that their leader has exhibited care and consideration and will likely continue to do so, they are influenced to conduct themselves in a similar fashion towards other members of their group. According to Dirks and Ferrin, relationship-based trust is likely most prominent between followers and direct leaders, or immediate supervisors, where interpersonal contact is frequent. Standard follower activities that are influenced by relation-based trust are: job performance, organizational citizenship behavior⁴⁷, turnover intentions, and job satisfaction.⁴⁸ The character-based perspective views trust as a result of the follower drawing inferences “about the leader’s characteristics such as integrity, dependability, fairness, and ability and that these inferences then impact work behavior and attitudes.”⁴⁹ The perceived character of the leader inspires the follower. Dirks and Ferrin contend that character-based trust is more likely to be active in the follower-organizational leader context, where interpersonal contact is minimal, but where leader actions are more global in their impact. Follower activities that are influenced by character-based trust are: organizational commitment and commitment to the leader’s decisions.⁵⁰ Interestingly, in a study performed by Dirks and Skarlicki involving employees of a bank’s financial services department, it became

⁴⁵ Dirks, and Skarlicki, “Trust in Leaders: Existing Research and Emerging Issues,”..., p 4.

⁴⁶ Dirks, and Ferrin, “Trust in Leadership...”, p 612.

⁴⁷ Organizational citizenship behavior is defined as “individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and in the aggregate promotes the efficient and effective functioning of the organization.” Ronald J. Deluga, “The Relation Between Trust in the Supervisor and Subordinate Organizational Citizenship Behavior,” *Military Psychology*, Volume 7, Issue 1, 1995, p 1.

⁴⁸ Dirks, and Skarlicki, “Trust in Leaders: Existing Research and Emerging Issues,”..., p 17.

⁴⁹ *Ibid.*

⁵⁰ Dirks, and Ferrin, “Trust in Leadership...”, p 623.

evident that both relationship-based and character-based dimensions of trust were needed in order to maximize the benefits of trust in support of overall organizational performance.⁵¹

Can a model of leadership bridge these two dimensions enabling trust to grow? Pojman, in his comparison of the various ethical systems, highlights virtue ethics⁵² as a philosophy that not only addresses what Dirks and Skarlicki refer to as character, but that also serves to nurture relationships.⁵³ Using virtue ethics as the philosophical basis, the U.S. Army has constructed a model for leadership development that has successfully trained leaders at all levels of the organization to lead through both their character and their skill in interpersonal relations.⁵⁴ Thus, one can view trust growing from two different branches, either the relation-based branch or the character-based branch. These branches can develop from the same philosophical root if that root is virtue-centered ethical leadership.

Having established what trust is and from where it evolves, the next question is whether or not trust improves organizational success?

What we are dealing with here are probabilities: we can state with considerable confidence that, everything else equal, those organizations that generate trust are much more likely to achieve long-term success than those organizations that fail to generate trust.⁵⁵

Hitt's statement that trust impacts organizational success is a widely held assumption; however, it is a view that has not been well established in empirical research.

⁵¹ Dirks, and Skarlicki, "Trust in Leaders: Existing Research and Emerging Issues,"..., p 14.

⁵² Virtue ethics, in contrast to action-based ethics, is concerned with the emotions, character and moral habit of a person. "[I]t is an ethics of aspiration rather than an ethics of duty." Louis P. Pojman, *Ethics: Discovering Right and Wrong* (Boston: Wadsworth Publishing Company, 1999), p 163.

⁵³ *Ibid*, p 169.

⁵⁴ United States, Department of the Army. Field Manual No. 22-100 *Army Leadership: Be, Know, Do*. Washington D.C.: Headquarters Department of the Army, 1999, p 1-19.

⁵⁵ William D. Hitt, *Ethics and Leadership: Putting Theory Into Practice* (Columbus: Battelle Press, 1990), p 2.

In addressing this void, Dirks performed a series of studies on the effects of trust on work group success, and on the relationship between trust and leadership. In his first study Dirks sought to identify whether or not “the level of trust within a group affect[ed] group performance.”⁵⁶ To do this, Dirks examined the direct and indirect effects of trust. What he discovered was that in temporary work groups, the degree of trust among workers did not directly impact the processes or performance of the group. However, he did find that interpersonal trust impacted the degree to which group members were motivated to work in unity. In groups with a high level of interpersonal trust there was a corresponding increase in unity of effort, which then led to an indirect effect of improved group performance. In groups with a low level of interpersonal trust workers were more individualistic in the performance of their tasks, and the overall performance of such groups was significantly reduced.⁵⁷ If organizations can facilitate the development of high levels of trust among the members of work groups there will be a corresponding increase in unity of effort leading to improved group success.

In a subsequent study, Dirks refocused on the relationship between trust in leadership and group performance. In this study he notes that the predominant view is that trust in leadership is directly related to group performance.⁵⁸ Dirks states that some authors view leader integrity as equivalent to trustworthiness and is therefore a key leadership trait. He also cites other authors who have concluded, “that trust is central in subordinates’ perceptions of effective leadership.”⁵⁹ However, empirical evidence

⁵⁶ Kurt T. Dirks, “The Effects of Interpersonal Trust on Work Group Performance,” *Journal of Applied Psychology*, Volume 84, Number 3 (1999), p 445.

⁵⁷ *Ibid*, p 453.

⁵⁸ Kurt T. Dirks, “Trust in Leadership and Team Performance: Evidence from NCAA Basketball,” *Journal of Applied Psychology*, Volume 85, Number 6 (2000), p 1004.

⁵⁹ *Ibid*, p 1005.

demonstrates that a group's trust in its leader will influence its performance was missing. In an effort to critically examine this topic, Dirks performed his study on several National Collegiate Athletic Association (NCAA) basketball teams. The findings of this study were significant. First, Dirks' study demonstrated conclusively "that trust in the leader has an effect on team performance."⁶⁰ Teams that reported high levels of trust in their leader during the early portion of their season of play excelled, while those teams in which their trust in their leader was low did poorly, and in one case the leader was replaced. Second, it also became clear that trust in leadership facilitated the development of group cohesiveness and the unified pursuit of group goals, and diminished individualistic concerns such that what mattered most was the success of the team – again unity of effort.⁶¹ Third, this study also provided evidence "that trust in leadership plays a crucial role in helping translate past performance of a team into future performance."⁶² Group success that the group members attributed to the impact of the leader led to increased trust in the leader. Increased trust in the leader then led to increased success (see figure 2).

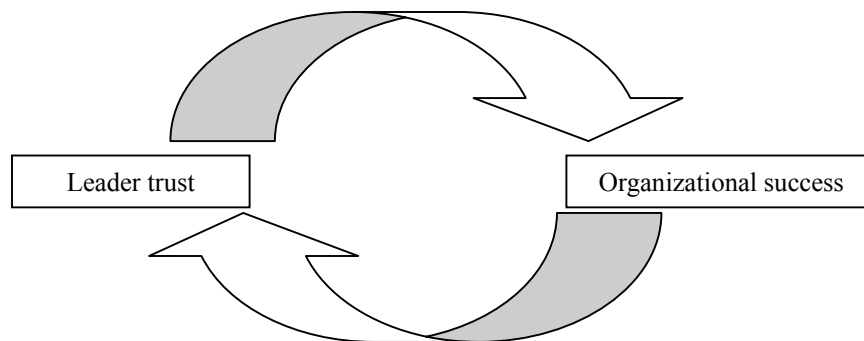


Figure 2. Diagram of the dynamic relationship that exists between follower trust in leadership and organizational success

⁶⁰ *Ibid*, p 1008.

⁶¹ *Ibid*, p 1009.

⁶² *Ibid*.

Given the existence of this dynamic the leader needs to ensure that the group experiences success early, so that the enhanced trust which flows from that success can be leveraged towards more challenging goals. However, an opposite dynamic was also evident. A loss of trust led to underperformance and underperformance led to a further loss of trust causing the organization to enter a cycle of decreasing success. Trust in the leader then is powerful and yet fragile and must be carefully cultivated. The results of Dirks research shows that not only can trust in the leader significantly enhance organizational success, but that it strengthens group unity and acts as a precipitate for further success. Trust then can be viewed as a potential force multiplier enabling an organization to successfully meet ever-increasing challenges.

Trust, in the follower-leader context, is the willingness of the follower to become vulnerable to the will of the leader. This willingness is dependent upon either the relationship the follower has with the leader, or upon the character of the leader. Virtue-centered ethical leadership will provide the root from which either relationship-based trust or character-based trust can grow. The growth of trust will lead both directly and indirectly to improved organizational success.

Current general trends in the evolution of organizational structures and practices are creating the conditions for unethical conduct. In response to the malignant growth of unethical corporate behavior regulatory bodies have increased penalties while at the same time providing incentives aimed at fostering a return to ethical practices. There is a convincing body of evidence, which demonstrates that ethical leadership is a panacea that

has a wide reaching, unique and highly influential impact upon an organization enabling it to experience significantly higher levels of success than those that lack this characteristic. Ethical leadership, if institutionalized, will birth a corporate culture characterized by extraordinary member conduct. There will be a pursuit of legally compliant behavior that protects the organization against external litigation, that provides a viable defence for the reduction of penalties should legal action occur, and that reduces cases of employee fraud. There will also evolve a more strongly motivated and effective workforce with a corresponding increase in leader effectiveness. While ethical leadership is impacting the organization globally through the development of an ethical culture, it will also affect the organization's constituents individually through the production of follower-leader trust. The fruit of this relationship is diverse. Subordinates perform their tasks at a higher level of competence; and they are more content, which translates into reduced turnover. They exhibit increased organizational citizenship behavior; and they are more committed to each other, to the leader, and to the organization. Together the benefits to be realized through ethical leadership have the potential for producing superior organizational performance, which has already been empirically demonstrated. Clearly, ethical leadership will lead to significant organizational benefits.

Corporate leaders, organizational consultants, and researchers are unanimous in their assessment of current societal trends – unethical conduct has reached epidemic proportions. The remedy for this disease is ethical leadership.

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