Impact of Ethical Leadership on Employee Job Performance

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Abstract

Despite the growing concern of researchers in the field of business ethics, cases of unethical practices have continue to manifest in corporate organisations. Corporate leaders engage in decisions that have resulted to lack of trust in the organisations leadership; and lack of commitment to organisation's goals. This paper tries to examine the concept of ethical leadership, the characteristics of an ethical leader, ethical leadership and its impact on employee job performance and how organisations can develop leaders that are not only sound in character but sound in action. Corporate business leaders are expected to be persons of "strong characters" and serve as role models to their employees; which without, the organisation's goals may be undermined. Two important variables; trust and commitment were discussed for better understanding of ethical leadership and employee job performance. The study concludes with some suggestions from the literature.

Key Words: *Ethical Leadership, Employee, Job Performance, Trust, Commitment.*

1. Introduction

Ethical leadership is a clarion call to the recent credit crisis, the worst global recession since the 1930s; and the various scandals in former leading corporate business organisations. The Enron, Arthur Andersen, WorldCom, Tyco, Parmalat and HealthSouth are among many businesses in the developed countries where leaders failed ethically for a variety of reasons, which may include pressures to achieve, perform and to "win at all costs". Top executives of corporate organisations contribute to the recent credit crisis by making fraudulent decisions that artificially inflate profits to increase compensation (Berenbeim, 2009; O'Connell & Bligh, 2009; Victor & Soutar, 2005).

In a survey conducted in 2010 among U.K and some continental Europe companies; it was revealed that the most significant ethical issues to organisations are bribery, corruption and facilitation payments; whistle blowing/speaking up and discrimination, harassment or bullying (Webley, Basran, Hayward & Harris, 2011). For instance, Texaco in 1996 made $176 million settlement for racial discrimination; Mitsubishi Motor Corporation settled $34 million in 1998 after a government investigation of pervasive sexual harassment and Louisana – Pacific Corporation paid a fine of $37 million in 1998 for customer and environmental fraud among other unethical practices.

Apart from cases of unethical practices in developed nations, evident have also shown in developing countries. For instance, Nigeria, one of the developing countries in the sub-Sahara Africa has witnessed increased in the rate of corporate failures. There were reported cases of corporate failure in Nigeria which were attributed to unethical practices of corporate leaders. The Nigerian banking sub-sector was at the halt of collapse in 1997, twenty-six commercial banks failed due to financial irregularities. In 2006, Cadbury Nigeria Plc, one of the leading Food and Beverages firms in Nigeria was affected by financial scandal. Cadbury Nigeria plc financial statement and accounts was falsified at the detriment of all stakeholders. Also in August 2011, three Nigerian banks namely, Afribank Plc, Spring Bank Plc and Bank PHB failed due to financial irregularities of their corporate managers. These banks were among the eight banks placed under Central Bank of Nigeria (CBN) management in August 2009 following the clean-up of the banking industry.

Ethical behaviour includes key principles such as honesty, integrity, fairness, and concern for others. This is a situation where by leaders engage in behaviour that benefits others and refrains from behaviour that can cause harm to others (Toor & Ofori, 2009). Often, corporate leaders see their work as separate from their lives.

Ethics must indeed begin at the top. Leaders cannot shrink from their obligations to set a moral example for their followers; formal ethical codes and ethic training have little chance of success unless the ethical actions and behaviour of top management are consistent with what they teach. Leaders are the key to determine the outcome of organisational goals and to set the tone for employee behaviour which may include promotion, appraisal and strategies (Brown & Mitchell, 2010). Organisational leaders should encourage employees by leading by examples; they have the responsibility to define organizational norms and values, live up to expectations and encourage their followers to adopt same.

Negative examples of immoral behaviour by corporate executives are like a 'cancer' on ethical behaviour within organisations (Fisher & Lovell, 2003). If leaders are perceived to be ruthless and inconsiderate in their business dealings with others, employees are likely to get the message too (Crane & Matten, 2004). Employees want to be associated with managers that are honest, credible, respectful, and fair (Kouzes & Posner, 2007 cited in Collins, 2010). Organisations can achieve better employee attraction and retention when employees have the opportunity to work for truly responsible and ethical employers (Bower, 2003 cited in Upadhyay & Singh, 2010; Collins, 2011). Failing to be a good leader can lead to increase employee turnover and decrease the likelihood of attracting new employees. This can also increases the costs associated with employee turnover, increase employee supervision, decreases job satisfaction and decrease the level of employee productivity.

Indeed, corporate organisations are characterized by bribery, corruption, facilitation payments and discrimination issues among others. These forms of unethical practices if not manage appropriately will likely have spillover effect on the performance of employees. It is therefore, an urgent attention to manage ethical issues worldwide. This paper examined the concept of ethical leadership; the characteristics of an ethical leader; the roles ethical leaders in improving employee job performance; the development of ethical leaders, and finally, conclusion and recommendations.

The Concept of Ethical Leadership

Leadership is defined as a process whereby an individual influences a group of individuals to achieve a common goal (Northouse, 2007). Theoretically, there are three basic ways to explain how people become leaders: the trait leadership theory, the great event theory and the process leadership theory (Bass, 1990). Trait theory is a situation where some personality traits may lead people naturally into leadership roles. A crisis or important event may cause a person to rise to the occasion, which brings out extraordinary leadership qualities in an ordinary person; this is the Great Events Theory. The process theory is a situation when leadership skills are learnt. According to Burns (1978), the leadership process occurs in one of two ways, either transformational or transactional. Transformational leadership is concerned with developing a vision that informs and expresses the organization's mission and lays the foundation for the organization's strategies, policies and procedures. The transformation leader uses strategies and techniques to empower the followers, enhance their self-efficacy and change their values, norms, and attitudes, which are consistent with the leader's vision.

Transformational leadership style seeks to improve the condition of the followers in order to effectively and efficiently achieve the goals of the organization. The transformational leader uses four forms of behavior; inspirational motivation, individualized consideration, idealized influence and intellectual stimulation. Bass & Steidlmeier (1999) argue that leaders may be authentic transformational and pseudo transformational. Pseudo transformational leaders are self-centered, unreliable, power-hungry, and manipulative. Authentic transformational leaders have a moral character, a strong concern for self and others, and ethical values, which are deeply embedded in the vision. However, a transactional leader is concerned with the allocation of resources, monitoring, and directing followers to achieve a given task. The transactional leader influences followers through the use of rewards, sanctions, and formal authority or position to induce followers' compliance behaviour. The transactional leader presumes that the employee will not do anything except for a transaction in which the payment for service is large enough to motivate the employee to perform. In transactional leadership style, the employee does nothing out of a sense of loyalty and selflessness toward the organization but only acts as a means of gaining payment.

Brown, Trevino & Harrison (2005:120) has defined ethical leadership as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement and, decision-making".
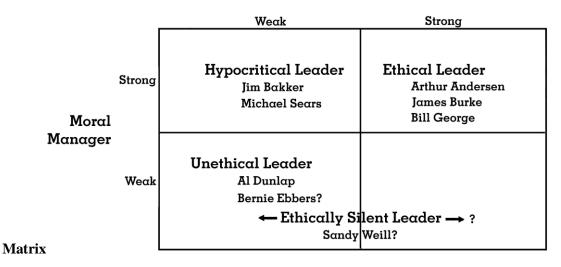
The definition suggests that ethical leader can set the example for others and withstand any temptations that may occur along the way. The importance of good character and the right values, the reality of ethical leadership is far more complex and the stakes are much higher. In a similar vein, Freeman & Stewart, (2006) describe an ethical leader as person with "right values" and "strong character", that set examples for others and withstand temptations. Ethical leaders are stakeholders in organisations, striving to achieve the purpose, vision and value of his realm without compromising self-interest. Ethical leaders embody the purpose, vision, and values of the organization and of the constituents, within an understanding of ethical ideals. They connect the goals of the organization with that of the internal employees and external stakeholders.

However, ethical leaders must understand that positive relationships with all organisational stakeholders are the gold standard for all organizational efforts. Good quality relationships built on respect and trust are the most important determinants of organizational success. Ethical leaders should understands that these kinds of relationships germinate and grow in the deep rich soil of fundamental principles such as trust, respect, integrity, honesty, fairness, equity, justice and compassion. The leader should know that living in harmony with these basic principles, human enterprise can flourish and be sustained (Berghofer & Schwartz, ud). Ethical leaders should focus on moral values and fairness in decision making, consider the impact of organizational decisions on the outside world, and clearly communicate to employees how their actions at work contribute to the overall goals of the organization. Ethical leaders help give meaning to their employees' work and ensure that organizational decisions are based on sound moral values (Piccolo, Greenbaum, Den Hartog, & Folger, 2010). Ethical leaders are always making efforts to incorporate moral principles in their beliefs, values and behavior; they are committed to higher purpose, prudence, pride, patience, and persistence (Khuntia & Suar, 2004).

In conceptualizing of ethical leadership, Trevino, Hartman & Brown (2000) present a matrix comprising unethical leadership (weak moral person, weak moral manager), hypocritical leadership (weak moral person, strong moral manager), ethical leader (strong moral person, strong moral manager), and ethically ''silent'' or ''neutral'' leadership (weak/strong moral person, weak moral manager). In a similar fashion, Trevino & Brown (2004) propose an executive must be perceived as both a "moral person" and a "moral manager to have a reputation of ethical leadership." A "moral person" is related to good character; the leader is honest and trustworthy, show concern for employee welfare and is seen as approachable. Whereas, a "moral manager," is one who leads others on the ethical dimension, allow employee to know what is expected, and holds them accountable. Moral managers set ethical standards, communicate ethics messages, use the position of leadership to promote ethical conduct at work and use rewards and punishments to guide ethical behavior in the organization. Trevino & Brown (2004) expand the Executive Ethical Leadership Reputation by citing examples of leaders in each of the reputation matrix (see Figure I). Combining the "moral person" and "moral manager" dimensions to creates a two-by-two matrix. A leader who is strong on both dimensions is perceived to be an ethical leader.

Figure I: Executive Ethical Leadership Reputation

Moral Person

	Weak	Strong
Strong	**Hypocritical Leader** Jim Bakker Michael Sears	**Ethical Leader** Arthur Andersen James Burke Bill George
Weak	**Unethical Leader** Al Dunlap Bernie Ebbers?	

Moral Manager (row label on left)

⟵ Ethically Silent Leader ⟶ ?
Sandy Weill?

Matrix

Source: Trevino, L. K. & Brown, M .E. (2004)

An ethical leader clearly led his organization on ethics and values. People knew what they could expect of him, and they knew what he expected of them from an ethics perspective. Examples of ethical leaders are Arthur Andersen, James Burke, CEO of Johnson & Johnson during the early 1980s and Bill George (a retired CEO of Medtronic). An unethical leader is perceived to be neither a moral person nor a moral manager. The research identified Al Dunlap of Sunbeam as an unethical leader. Others are Dennis Kozlowski from Tyco, Bernie Ebbers from WorldCom, and Richard Scrushy from Health-South. Leaders who communicate a strong ethical values (moral managers), but who are not perceived to be ethical themselves (they are not moral persons) were tagged hypocritical leaders. According to the study, Jim Bakker, the founder of PTL Ministries is an example of a hypocritical leader. Also, Michael Sears, fired from Boeing for offering a job to an Air Force procurement specialist while overseeing negotiations with Boeing, represents a more recent example of a hypocritical leader. The ethically silent leader is not perceived to be unethical but is seen as focusing intently on the bottom line without setting complementary ethical goals. Leaders in this category are likely to be perceived by employee in a negative way. Silence means that the top executive really doesn't care on how business goals are met and so employees act on such messages. Sandy Weill, CEO of Citigroup, may be a good example of ethically silent leader.

Thus, ethical leaders can effectively achieved greater performance within organisations by exhibiting qualities that will influence employee to work harder. This will at the long run assist organisations to achieve their goals and objectives optimally.

2. Characteristics of an Ethical Leader

A good leader has an idea of goodness and respective goals and is willing to hold on to these goals even in difficult times. A good leader is authentic, cares strongly about certain ideas that deserve robust concern and is a person of prudence. In a study conducted on the understanding of executive ethical leadership (Trevino, Brown & Hartman, 2003), ethical leaders are thought to be receptive and open, possess traditional leadership traits such s integrity, honesty, and trustworthiness. Ethical leadership includes transactional leader behaviors such as setting ethical standards and holding followers accountable for ethical conduct.

Resick, Hanges, Dickson & Mitchelson (2006) identified six key attributes that characterized ethical leadership which includes character and integrity; ethical awareness; community/people-orientation; motivating; encouraging and empowering; and managing ethical accountability. Besides, the characteristics of ethical leadership as identified by Freeman & Stewart (2006) are: (1) the articulation and embodiment of the purpose and values of the organization by the leader (2) the leader focus on organizational success rather than on personal ego, (3) the leader find the best people and develop them, (4) he/she create a living conversation about ethics, values and the creation of value for stakeholders, (5) take a charitable understanding of others' values, (6) make tough calls while being imaginative, (7) create stakeholder support and societal legitimacy.

In a similar vein, O'Connell & Bligh (2009) identified the following nine characteristics of an ethical leader from a synthesis analysis of past researches. (1) Uses an ethical 'lens' (2) Makes ethical decisions (3) Considers the long-term implications of business decisions, (4) Considers others' well-being when making decisions and treats others fairly (5) Acts ethically or role models ethical behavior (6) Communicates the importance of ethics (7) Understands themselves and those with whom they work (8) Holds others accountable for acting ethically (9) Offers training and support for employees on how to act ethically in the workplace.

Nevertheless, these unique qualities that characterized ethical leaders make them different from other leaders of corporate organisations. Ethical leader are those leaders that are sensitive to the interest of all employees without fear or favour.

3. Ethical Leadership and Employee Job Performance

Employees are the most important assets in organisations, which without, the goals and objectives may not be attained. Several studies have been conducted on the roles that ethical leaders can play in achieving increase employee job performance. A study by Toor & Ofori (2009) revealed that ethical leadership may play a mediating role in the relationship between organizational culture and employee outcomes. The study shows that ethical leadership is more likely to bring about leader's effectiveness, willingness of employees to put in extra efforts, employees' job satisfaction, and an atmosphere for ethical leadership to flourish; which will ultimately leads to increased employees' job performance.

Ethical leadership is associated with positive influence on employee performance (Resick et al., 2011), intrinsic motivation (Piccolo, et al., 2010), job responses (Ruiz, Ruiz & Martinez, 2011) and willingness of employee to reports problems (Brown et al., 2005). Piccolo, et al. (2010) suggest that leaders with strong ethical commitments can have impact on "task significance" and "autonomy" of the Job Characteristic model; and the willingness of employee to put extra effort on task performance. If followers perceived top manager's good moral image, ethics may be viewed as an important issue within the organization, and this perception may be a translated into a strong appreciation of top management by employees within an organization (Ruiz, Ruiz, & Martinez, 2011).

In organisations where leadership is perceived to be unethical is manifested in the failure of the leader to follow rules, failing to take responsibility for unethical behaviors, and failing to avoid even the appearance of impropriety (O'Connell & Bligh, 2009). Two important variables are crucial to the issue of ethical leadership in improving employee job performance; trust and employee commitment. As evident in the assertion of some researchers (Hosmer, 1994; Jones, 1995 cited in Berrone et al., 2007) that good ethics is good for business because it generates positive externalities like trust and commitment to all stakeholders, which in turn assures long-term performance of firms.

Trust

Trust is a sacred and emotional relationship between people; the expectation of faith that individuals have on the organisation and leadership (Darcy, 2010). Trust is the foundation for constructive conflict, goal commitment, personal accountability, and achieving collective goals (Lencioni, 2005 cited in Collins, 2010). Trust is a positive expectation that another will not act opportunistically (Robbins, Judge, Millet & Water-Marsh, 2008). This is the expectation of others in words, actions or decisions. According to Jones & George (1998) cited in Zhu, May & Avolio (2004) there are two types of trust; conditional and unconditional trust. Conditional trust is a situation whereby both parties are willing to transact with each other as long as each behaves appropriately and uses a similar interpretive scheme to define situation. Whereas conditional trust is characterized by the shared values that structure the social situation and become the primary vehicle through which individuals experience trust. Theorists have also identified three types of trust in organisational relationship; deterrence based, knowledge based and identification based (Robbins, et al., 2008). Deterrence trust is based on fear of reprisal if the trust is violated. Individual act in accordance with what they say because of the consequence. Knowledge trust is based on the behavioural predictability that comes from a history of interaction. The identification based trust is on mutual understanding of each other's intentions and appreciation of the other's wants and desires.

Trust is an important issue in organisations that has effect on performance, and if broken is likely to has serious adverse effect. Employee trust in leaders will likely result to increase in employee compliance with organizational rules and laws, facilitate the implementation of organizational change; and improve employee contributions in terms of performance, intent to remain and civic virtue behaviour (Robbinson 1996; Van Zyl & Lazeny, 2002 cited in Ponnu & Tennakoon, 2009). Employees are unlikely to follow leaders that are perceived to be dishonest and may likely take advantage of them (Robbins, et al., 2008). Covey (1998) encourages companies to examine the impact of trust on the bottom line in addition to profits, earnings-per-share, and other figures traditionally thought to determine the success of the company. Low levels of trust can result in organizational decay as relationships deteriorate political strife, infighting, and general inefficiency result; organizations with little or not trust have no basis for future success. Corporate leaders cannot separate the issue of trust from their business dealings. As Fulmer (2004) noted, ethics, values and trust are important issues to executives attempting to recover from a substantial downturn in the national and global economies.

Studies have shown that greater trust exists in organisations when employees perceive an organizational climate as ethical. Trust within an organization can contribute to creating greater efficiencies in relationships between managers, subordinates, and top level executives (Leo, 1996). Organizational initiatives to improve trust often generate long term benefits. A good example of a corporate culture which focuses on quality and ethics is Starbucks. Starbucks has won a number of ethics awards and has been recognized as a role model of social responsibility. The company first priority is taking care of the employees in its retail stores who communicate with and serve customers. Starbucks executives believe that by taking care of these employees, the company can provide long-term value to shareholders (Schultz & Yang 1997). Trust is vital to all organisations and it expected that ethical leaders demonstrate behavioral consistency between words and actions; treat all employees fairly without violating human rights.

Employees Commitment

Commitment is simply defined as loyalty and attachment of an individual or group to the organisation. Organisational commitment is defined as a state in which an employee identifies with a particular organisation and its goals and wishes to maintain membership in the organisation. Commitment had been used by organisations to predict desired employee behaviour in the areas of performance, absenteeism and emotional attachment. Theoretically, organisational commitment has three components (Meyer & Allen, 1991): affective, continuance and normative. Affective commitment is referred to as an employee's emotional attachment to the organisation. Continuance commitment is the perceived economic value of remaining with an organisation compared to leaving it. Normative commitment is an obligation to remain with an organisation for moral or ethical reasons. However, studies have shown relationship between ethical leadership behaviour and employee's organizational commitment. Some of these studies revealed that high levels of perceived ethical leadership behaviour are associated with higher levels of employee's organizational commitment (Ponnu & Tennakoon, 2009; Upadhyay & Singh, 2010). In a related fashion, there was a positive relationship on the impact of leader's ethical behaviour on the employee's level of commitment to the organisation (Mize, 2000 cited in Zhu, May & Avolio, 2004). Employee commitment is also linked to improved quality of products, enhanced customer loyalty, and lower costs due to a decrease in employee turnover. Maignan (1997) cited in Ferrell & Ferrell, (1999) found a positive relationship between corporate citizenship (defined as economic, legal, ethical, and discretionary activities) and employee commitment to the firm. Employee commitment to the organization decreases, product quality drops, customers leave, and employee turnover skyrockets as ethical compliance decreases. It is expected that leaders who exhibit ethical behaviour would be more likely to consider the needs and right of employees and treat them fairly.

4. *Developing Ethical Leaders*

Leadership development is an un-ending process of self-study, education, training, and experience (Jago, 1982). Developing leaders in organisation is a long-life process; and ethical leadership programmes is design to equip employee with the rudiments for effective management. Ethics does not apply to only those at the top; all individuals no matter the level in the organisation should abide by ethical rule. Thus, every organisation should put mechanism in place in order to develop future leaders for long term survival of businesses. The focus of leadership development should be on producing leaders in the middle who have personal ethical competence, who are good models for those around them, and who can empower others to get the work done in ways that promote harmony and maintain good relationships. This calls for leadership development specifically focused on training ethical leaders throughout the organization (Perreault, 2010).

A fundamental focal point in the literature on the development of leaders is that it can be teach and must be taught. Ethically sensitive leaders are needed in time of financial crises, global injustice, climatic change, cultural insensitivity, employee racial and sexual discrimination and the period of corporate financial irregularities. The success of any enterprise, large, medium and small depends on leadership skills and competencies which can be learned through training and practice. Ethical leadership training and development must take the form of deep personal reflection guided by materials that refine the essence of moral principles and leadership insights.

Freeman and Stewart (2006) argued that for leadership development effectiveness, the first step is to understand the need for ethical leadership; how the organization benefits its stakeholders and the organization's values. It is imperative to set aside a brief time to raise concerns about the effects of ethical leadership on key stakeholders, or on a company's values and ethics. Many companies have leadership development programs. These programs need to be strengthened by adding the idea of "ethical leadership." It is not necessary to use the specific principles developed, but companies can make themselves better by engaging participants in a conversation about what they see as "ethical leadership." Executives can also develop shared conversations and conceptions of how "ethical leadership" can be implemented in their particular company. Executives need to figure out how to have "challenge meetings," routine processes where anyone in the organization can raise a challenge to whether or not the company is living its values, or its enterprise strategy approach.

Prince II, Tumlin & Connaughton (2009) identify the followings as critical elements of ethical leadership development:
1. Knowledge of leadership and ethics that provides a conceptual framework for understanding the practice of ethical leadership when one is engaged in leading or following others.

2. Opportunities to practice leadership roles in situations that require collective action where the learner has some responsibility for outcomes that matter to others.
3. Opportunities to study, observe and interact with leaders, especially leaders who have demonstrated moral courage
4. Formal and informal assessment of the efforts of those learning to lead ethically
5. Feedback of the results to the learner along with reflections by the learner on the experience.
6. Strengthening a personal ethic that embodies foundational, core values such as integrity, service to others, and loyalty.

To develop ethical leaders, ethics codes need to be clear; proper guidelines to be in place to ensure that all employees understand what are expected of them. Also, organisations need to demonstrate ethical leadership within the culture of hiring, training and development; and to promote and reward those employees who will embrace the ethical standards.

5. Conclusions

Ethical issue is a worldwide phenomenon. It is an important issue to corporate organisation; and corporate leaders must take proactive measures. Ethical leaders are perceived as having a broad ethical awareness and concern for all stakeholders which includes employee. Therefore, leaders must create an ethically friendly work environment for all employees, communicate ethical issues, serve as role models and put mechanism in place for the development of responsible employees. It is expected that leaders who exhibit ethical behaviour would be more likely to consider the needs and right of employees and treat them fairly. Indeed, every employees want to work for a truly and responsible employer and as such, corporate leaders has to fulfill their obligations on ethical issues and rise up to these expectations. Thus, the following recommendations from the empirical literatures are guidance for corporate leaders in the management of ethical issues (Collins, 2010; Trevino & Brown, 2004, Upadhyay & Singh, 2010):

- The CEO must be the chief ethic officer of his/her organisation. This is necessary in order to personally assess areas for ethical risks such as guidance on ethical issues, monitoring the organisation's adherence to ethical codes, monitoring organisation's ethics policy and overseeing ethics training programmes.
- He/she must ensure a strong ethical culture (a total quality management of ethics) within the workplace. The values and norms of the workplace should be in accordance with ethical issues with systematic approach of total quality management of ethics. The total quality management approach to ethics can help to determine the root cause of ethical behaviour and be managed appropriately.
- Organisations should strive to hire ethical people. Organisations should focus on ethical skills along with the technical skills in the recruitment screening process. Information on potential employee ethical behaviour can be obtained from resumes, reference checks, background checks and integrity test.
- Organisations should ensure that all employees participate in ethics training programmes. This will serve as an opportunity for employees to learn and evaluate the impact of ethics on activities and organisational performance.
- Corporate leaders should reward ethical conduct and discipline unethical conducts. Leaders should make decisions that promote and compensate employees who are not only good on what they do but also have sound relationship and have developed reputation with customers and co-workers. The 360 degree performance management system evaluation can be used for ethical behaviour decisions.

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