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The business school that thinks and lives in the future

# What value ethical leadership?

In discussion with **Marius van Dijke, Steffen Giessner and Rob van Tulder**

**What is ethical leadership? What are the benefits of developing an ethical culture within an organisation? And how can leaders implement such a culture? These are just some of the issues that are discussed in the second *RSM Discovery* debate.**

Meeting to discuss the subject of ethical leadership are Marius van Dijke, Endowed Professor of Behavioural Ethics and Scientific Director of the Erasmus Centre of Behavioural Ethics; Steffen Giessner, Associate Professor in the Department of Organisation and Personnel Management, and Rob van Tulder, Professor of International Business Society Management, and co-author of the book *Managing the transition to a sustainable enterprise: lessons from front runner companies*, which has recently been published in English. Moderating the debate is Russell Gilbert, Editor of *RSM Discovery* magazine.

**Russell Gilbert (RG):** Welcome, gentlemen. First of all, what is ethical leadership?

**Marius van Dijke (MvD):** For me ethical leadership means that leaders are able to motivate their followers to live up to generally accepted norms and expectations. However, this immediately suggests a number of problems as what might be considered as ethical leadership in the Netherlands could be completely different in, say, India or Russia.

**Steffen Giessner (SG):** There are two sides to ethical leadership. One side explores what employers and organisations think is ethical, and this shapes how they perceive the ethics of their leader. The other side considers where the perceptions of what is ethical come from, what norms exist, and how they are agreed in the workplace.

In a way, each represents a different research stream, with one studying the effects on the organisation when followers perceive their leader as being ethical. The other concerns itself with understanding what ethical leadership is, and whether there are differences between organisations in their interpretation of what is ethical and what is not.

**Rob van Tulder (RvT):** For me an ethical leader is one who looks at the serious problems faced by their organisation, its employees, and society. The ethical leader doesn't shy away from challenges. Rather, they identify the dilemmas associated with ethical problems and define ways of dealing with them.

Normally we'd call it procedural justice. In many respects it is more about the fairness of the road travelled

than it is about outcomes as these can be completely different from organisation to organisation and culture to culture.

**RG:** Why is ethical leadership important to organisations?

**MvD:** Research shows that acting ethically can have many positive outcomes for organisations. Employees are more willing to invest effort to work harder, for example, even in activities that are not part of their formal job descriptions. And acting ethically benefits an organisation's reputation among customers and stakeholders.

**SG:** The media has a much greater impact on organisations nowadays. We have witnessed much media questioning in recent times about the morality of business leaders. Regardless of whether the media is right or wrong, all of this attention places ethics firmly on the agenda for organisations.

As a result, organisations need to care more about their reputations and consider the consequences of having leaders under the ethical spotlight: the impact it can have on their ability to recruit and retain the best talent, for example, or the possible effects on customer loyalty.

Leaders need to stand out as ethical role models for organisations, not just in the work environment, but also outside of it. If they are not role models then it is easy for people to assume that the same lack of ethics runs throughout the company.



**RG:** What other benefits are there for organisations?

**SG:** If the leader is visible as a role model whose ethical values represent the organisation, then benefits can trickle down through all levels of a firm. In this environment, leaders and followers throughout the organisation can feel motivated to act more ethically; and it can stimulate a desire to reciprocate the ethical behaviour they experience.

**RVT:** Coming back to matters of reputation, it's very clear that companies today suffer from a major trust problem. In every statistical report we read that leaders of companies are not considered to be very trustworthy at all.

Many companies are in a stage of transition and they face problems, not only at an ethical level, but also

at a strategic level. They are confronted by major issues such as climate change and poverty, and are often labelled as being a part of the problem. However, by tackling these issues ethical leaders can be seen as being part of the solution.

This connects very strongly to firms' business models. Firms often have a serious problem in defining what I call their reason for existence – their value proposition.

Companies today are reproached for not adding value to society and for creating problems. In order to create new value propositions firms need strong leadership from people who can walk the talk.

It's not only about the wages employees earn, but also how firms can define the services that they provide, the products they make, where they are produced, and under what circumstances. ▶

*"Research shows that acting ethically can have many positive outcomes for organisations."* Marius van Dijke, Endowed Professor of Behavioural Ethics

# What value ethical leadership? *(continued)*

In discussion with **Marius van Dijke, Steffen Giessner and Rob van Tulder**

**RG:** *This is part of a business philosophy in which companies act sustainably and ethically relative to their position in and impact upon society?*

stakeholders. And one way or another, even if one stakeholder loses out, the procedure must be considered a fair one. This is the leadership part of it.

**RvT:** It is fundamental that organisations have a value proposition. The concepts of what is good and bad are multi-interpretable, and an ethical business leader must define them relative to the firm and its stakeholders and decide how it will add value.

**SG:** Exactly. In this light ethical leadership is much more about managing ethical dilemmas. Under the spotlight of intense media scrutiny, leaders need to build up strong arguments around the perspectives they wish to choose.

*"Although ethical leadership must be fluid, it is through procedures rather than outcomes that fairness is achieved."*

**Rob van Tulder, Professor of International Business Society Management**

**SG:** When it comes to practice, the reality is that ethics is a very complex concept. As has been pointed out, a major challenge is that we have varying perceptions of what might be moral or ethical, and even the procedural justice Prof. Van Tulder refers to can be perceived differently by shareholders and stakeholders.

Globalisation, intense media scrutiny, along with shareholder and stakeholder needs contribute to this disparity of perceptions. It's difficult for leaders to make "the right decision". And with so many perspectives there probably isn't one – there are only options.

**RvT:** The essence of procedural justice is that it involves all relevant

**MvD:** It is complicated and our own research shows that to be successful, ethical leadership requires very strong trade-offs. Also, while findings show that ethical leadership can stimulate employees to put more effort into their work, it is also true that being overly steadfast as an ethical leader can decrease the motivation and performance levels of followers.

**RG:** *That's interesting. One would have thought that for a leader to take a strong ethical stance – and to be seen to do so – would be a win-win situation.*

**MvD:** Yes, you would think so. However, that's not the case. Our research shows that people do not generally think of strict ethical leaders as positive role

models. Rather, employees view such leaders in a negative light because they perceive them as wanting to be superior. This is known as moral reproach. It means that it's not very easy to be a positive ethical role model. People form their own perceptions and if you as a leader focus on ethics, those perceptions may not be to your liking. You may not even be perceived as an ethical leader at all.

**RvT:** When leaders have strong convictions or opinions about certain subjects they attract followers, but that doesn't automatically lead to a thriving organisation. For that to happen firms need diversity. A lack of diversity in perspectives can lead to groupthink and negative performance.

Although ethical leadership must be fluid, it is through procedures rather than outcomes that fairness is achieved. This brings us again to the company's value proposition; or looked at another way, its fiduciary duty.

On the one hand a firm's duty is to its internal stakeholders – its employees – but on the other it also has a duty to external stakeholders. And here the external stakeholder community needs to be defined. Is it comprised of those directly involved in the organisation or does it encompass a much broader audience?

**RG:** *So leaders have to decide by whom they want to be seen as being ethical? How then, when you're doing business not just across borders, but also across cultures, do you create a solid ethical framework for the organisation?*

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**RvT:** Firms have to go back to basics. Child labour, for example, is something that is context dependant. It typically takes place in poorly developed countries where children do not have an alternative other than to work. And what is a child? In some cultures it's a young person under the age of 12, while in others it's 18 years old.

Many big firms looking to sell cheap products – Wal-Mart and IKEA, to name but two – have an eternal problem with the possibility of child or cheap labour being used somewhere within their supply chains and this create ethical dilemmas.

Our research shows that companies with an ethical leadership stance go beyond national cultures and national regulations. Companies must revisit their business models and ask upon which values they are built. Then issues such as child labour and climate change can begin to be properly addressed. And it's through this approach that organisations can become part of the solution.

**SG:** It's important for leaders to identify and address the ethical dilemmas they face, the stakeholders that might be affected, and the obligations the organisation has to them.

It's also important that leaders develop procedures to address ethical challenges that are consistent, regardless of whether these are liked by everybody or not.

**RG:** *What advice would each of you give to the CEO who wants to improve ethical leadership within their organisation?*

**SG:** I would recommend that top management teams be immersed in programmes that teach them how to create a culture of ethical awareness within the organisation and how to solve ethical dilemmas.

These skills have to be transferred to employees so that an ethical culture, one in which dilemmas are consciously solved in procedurally consistent ways, can flow from top to bottom.

**MvD:** I would invite the CEO to consider what their core values are, and to identify what they consider is ethical. From there an ethical framework should be defined that involves everyone within the organisation. I would recommend to the CEO that they strive to become a role model, and that systems are introduced which punishes deviations from the agreed culture. Above all, the whole process needs to be taken seriously.

**RvT:** I would first want to know what story the company is telling through its mission statement and what this means. Second, we would look at business models and value propositions and determine at the strategic level if the company is operationalising the vision it has laid out. At the third level, I'd want to know how the company engages with its internal and external stakeholders.

Stakeholders should be your fiercest critics. If you cannot explain to them what your company's value proposition is, and if they are unable to understand and respect your story, then you have a leadership problem.

If you were already an ethical leader then I would advise you to improve your story before starting to talk about ethical dilemmas and before the introduction of procedures to handle them.

**RG:** *So fundamentally the CEO must understand what they and the organisation they represent stand for. And they must use this understanding to create a strong value proposition around which an ethical framework can be built. Gentlemen, thank you. ■*

**Watch the RSM Discovery debate as it happened at:** [WEB http://bit.ly/1jX5lnQ](http://bit.ly/1jX5lnQ)

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