# Dimensions for the assessment of ethical leadership: An internal audit perspective

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**ABSTRACT**

Ethical leadership is regarded as the key to building trust and sustaining organisations. However, monitoring the effectiveness of organisations in promoting ethical leadership poses a challenge to assurance providers, in particular internal auditors. Although attempts have been made to provide internal auditors with guidelines on how to assess the tone-at-the-top, these efforts are still based on the traditional compliance approach that in the past has fallen short of expectations when applied to questions of ethics. This paper proposes additional dimensions, to be included in a value-based approach to the assessment of ethical leadership. The foundation on which these dimensions are assessed is the Integrated Control Framework prepared by The Committee of Sponsoring Organisations of the Treadway Commission (COSO).

*Individuals do not learn values from 'society' but rather from members of their immediate social networks such as leaders and their work teams (White & Lean 2008:766).*

## 1 INTRODUCTION

The subject of ethical leadership has been the topic of numerous research papers, particularly after the series of corporate scandals which occurred during the first few years of the 21st century (Dorasamy 2010; Brown, Trevino & Harrison 2005; Trevino, Brown & Hartman 2003). This interest in ethical leadership intensified during the economic meltdown induced by the sub-prime mortgage crisis and other financial scandals, such as the excessive remuneration of financial services executives and traders (Lehman Bank; AEG; Bank of Scotland) (Kaptein & Avelino 2005:45/46; Soltani 2014:252). In South Africa, action taken by the Competition Commission against some of the leading companies within the construction and bread industries has demonstrated that, despite the presence of other internal control principles, the absence of a strong ethical culture within organisations may lead to serious reputational and financial consequences (Wits 2014; Sunday Independent 2013; Daily Maverick 2013; Moneyweb 2013).

Although there is some level of consensus that the corporate scandals that induced the collapse of many organisations, including public service institutions, can be attributed to the absence of ethical leadership (Soltani 2014; Goodpaster 2007; Brown & Trevino 2006; Knights & O'Leary 2005), there are very few studies that address the development of practical ethical frameworks which can guide leaders and those who are tasked with monitoring activities,

particularly internal auditors (Yukl, Mansud, Hassan & Prussia 2013; Wilkinson & Plant 2012; IIARF 2011). Consequently, there are very few instruments that can be used to evaluate and measure ethical culture within organisations (Huhtala, Feldt, Lamsa, Mauno & Kinnunen 2011; Kaptein 2008). Increasingly, there is an appreciation within the field that managers are the critical role models who represent ethical behaviour within organisations (Huhtala *et al* 2011; Brown *et al* 2005) and that substantial attention from management is necessary to create an ethical environment conducive for ethical norms to be developed and embedded (Huhtala *et al* 2011:232).

Various public bodies, like the National Commission on Fraudulent Financial Reporting (more frequently known as the Treadway Commission) (1987) in the United States of America (USA), the Cadbury Committee (1992) in the United Kingdom (UK) and in particular, the King Commission on Corporate Governance in South Africa (IoD 1992; 2002; 2009), have issued reports and recommended measures that, if implemented, would promote ethical leadership and make leaders of organisations more accountable for the good governance of their organisations. Some governments, like the USA, went further and introduced legislation that specifically enforces compliance by corporations, such as the Sarbanes-Oxley Act of 2002 (Rockness & Rockness 2005:31).

Internal auditing is increasingly being regarded as able to play an important role in providing solutions to

ethical and corporate governance issues within organisations (Coram, Ferguson & Moroney 2008; Gramling, Maletta, Schneider & Church 2004). Internal auditors are also expected to actively support the organisation's ethical culture (IIA 2012b). One of the key steps in assessing the governance processes and recommending areas for improvement in ethics and values within organisations, as demanded by the Institute of Internal Auditors' (IIA) *Standard 2110: Governance,* is the assessment of the ethical climate within organisations (IIA 2012a). In South Africa, the role of internal audit in providing assurance on the governance, ethics and integrity of corporations was clarified and enhanced through publication of the three King Reports, and particularly the third report*, King Report on Corporate Governance for South Africa* 2009 (IoD 2009).

## 2 OBJECTIVE AND SIGNIFICANCE

This paper proposes dimensions to be considered by internal auditors as part of a value-based approach to assessing ethical leadership. The paper draws on literature from the fields of ethics, corporate governance, organisational design, and people management to identify relevant dimensions. These dimensions are then considered against the five principles constituting the Control Environment Component of the Committee of Sponsoring Organisations' (COSO) Integrated Framework for Internal Control (COSO 2013), which make up the building blocks of a value-based approach.

The dimensions identified in this paper provide some answers to internal auditors and other assurance providers on how to address the difficulties of conducting a value-based assessment of ethical leadership. The study could also be useful to the IIA in providing further guidance that would augment the existing practice guides. The study forms a basis for future research into value-based measurement of ethical leadership, an aspect that will be useful to management, oversight bodies and other stakeholders.

## 3 LITERATURE REVIEW

The next section discusses the existing research on ethical leadership and how it impacts on organisations, in particular the working environment, corporate governance, and internal control. The control environment, being the first and critical component of internal control, is the main focus area. The section also explores the role of internal auditors.

### 3.1 Ethical leadership

Brown and Trevino (2006:595/596) define ethical leadership as the promotion of suitable conduct to followers through personal actions, the management of interpersonal relationships, communication, and decision-making. This definition was a refinement of the definitions offered by, among others, Trevino, Hartman and Brown (2000), and Brown *et al* (2005), who submitted that ethical leadership is a combination of the 'moral person' and the 'moral manager' as it integrates traits, characteristics and motivation with particular actions intended to influence the conduct of subordinates.

To put ethical leadership into context, several other leadership definitions have been considered. Trans-formational leadership, authentic leadership and spiritual leadership were identified as having strong links with ethical leadership (Brown & Trevino 2006). Transformational leadership is defined by Bass and Steidlmeier (1999) as leadership that inspires and stimulates followers by uplifting their morale, motivation and ethics, while Engelbrecht, Van Aswegen and Theron (2005:20) link transformational leadership to altruism (the desire to help and advance others without expecting personal benefit or reward) and ethical climate (an environment of shared perceptions of what is right and what is wrong). Authentic leadership is defined as decision-making and behaviour guided by high ethical standards and self-awareness, and the demonstration of consistency of and coherence between values, beliefs and actions (Walumbwa, Avolio, Gardner, Wernsing & Peterson 2008:93). Brown and Trevino (2006) describe spiritual leadership as leadership that embraces religious and ethical values, including integrity, honesty, humility, reliability and amiability. The movement in the current complex business environment is towards trans-formational ethical leadership, as this type of leadership is perceived to be most suited to advancing sustainability efforts within organisations (Avolio, Bass & Jung 1999).

Haubold and Throneberry (2010:33) assert that leaders might be oblivious of the influence they have on their organisations. They claim, further, that the integrity and values of leaders are responsible for setting the parameters of employees' ethical conduct, going on to argue that if top management flaunts ethical principles and organisational rules and procedures, there will be a strong possibility that employees will model this behaviour (Haubold & Throneberry 2010). Kaptein and Avelino (2005) arrive at a similar conclusion and state that ethical leadership is supposed to set a good example for employees as well as stimulate their good conduct. The ethical conduct of corporate leaders has therefore increasingly been identified as critical to the ethical conduct of employees (Huhtala *et al* 2011; Brown *et al* 2005).

The link between the integrity of leaders and the ethical behaviour of employees has been identified by White and Lean (2008:774), in their deduction that the effectiveness of leaders is optimised when they demonstrated values – such as integrity, equity, fairness and respect, – that were consistent with the expectations of employees. White and Lean (2008:774) also asserted that leaders' behaviours are likely to influence organisational effectiveness, team performance and employee commitment to the organisation. The impact of leaders on employee performance has been further explored by Bello (2012) and Lasthuizen (2008), who indicate the importance of leadership in influencing employee integrity. Shaw, Erickson and Harvey (2011) and Maguad and Krone (2009) argue that there is a link between moral leadership and the improvement of quality within organisations. The opposite, termed destructive leadership by Schyns and Schilling (2013), may encourage counterproductive behaviour

within the work environment. De Hoogh and Den Hartog (2008) also confirm that there is a positive link between ethical leadership, top management team effectiveness, and subordinates' optimism about the future and their own place within that future.

The social learning theory of organisational ethics, propagated by Brown *et al* (2005), explains that leaders can only be perceived as ethical by their followers if they are attractive and credible role models. Brown and Trevino (2006:598) extend this and argue that the way leaders reward and punish their followers influences ethical behaviour, as followers learn through direct observations as well as vicariously, through second-hand information. Kaptein and Avelino (2005:53) also submit that by creating a culture of openness and transparency, while increasing management sensitivity to the impact of organisational structure, ethical climate, and ethical culture on behaviour, ethical leaders would be satisfying the major requirements for improving ethics within organisations.

The point of departure for any governance system is the question of where the leadership is located. Some systems propose that leadership rests with the board of directors, while others consider it to be the role of the executive management, and yet others believe it to be a combination of both of these distinctive leadership roles (Ocasio 1994; Carcello, Neal, Palmrose & Scholz 2011). Consequently, there is a diversity of leadership theories relating to whose interests are being served within which particular environment. Some of these arguments are supportive of the agency, stakeholder, and stewardship theories (Caldwell & Karri 2005; Thoms 2008; King 2006). As early as the nineteen-nineties, researchers had begun to examine the relationship between social performances and financial performance, with increased emphasis being placed on the wider stakeholder universe, as opposed to the conventional, narrow focus on the shareholders (Verschoor 1998). This approach contributed to increased attention being given to the utility of the code of conduct. However, it was soon realised that, without senior leadership personally demonstrating full commitment, a stated commitment to the ethical principles reflected in the typical code of conduct would be nothing but a public relations exercise (Thoms 2008:437). Previously, Verschoor (1998) argued that it would be critical for organisations to focus on the effectiveness of controls that have been designed to ensure commitment to ethical and socially-responsible behaviour.

The focus on the ethics-related controls is supported by Goodpaster (2007), who classifies markets and laws as external controls and conscience as an internal control. Goodpaster (2007) and Yukl *et al* (2013) also argues that, since the demise of many organisations had resulted from the drive to achieve goals at all costs, and the rationalisation of this method, the sustainable approach would be to align ethical aspirations with rewards, incentives, and discipline, as well as to carry these into internal and external communications in the day-to-day operations of organisations. If by personally demonstrating the values of the organisation through their conduct, be it during daily activities or during pressure or crisis

situations (this results in more ethical behaviour by their subordinates), the leaders would be confirming the validity of the social learning theory (Zhu 2008).

## 3.2 The Control environment

The COSO Framework, published in May 2013, describes the control environment as the foundation and anchor of the ethics climate because it sets the tone-at-the-top (COSO 2013). Tone-at-the-top is an important factor in determining the role played by internal controls and the expected conduct within the organisation (COSO 2013). The control environment is defined as the standards, processes and structures that are developed and reinforced by management to ensure that internal controls are implemented and supported across the organisation (COSO 2013). COSO (2013) furthermore indicates that the control environment is influenced by both internal and external factors, and that to be resilient, an organisation needs to establish and maintain a strong control environment.

There are indications that a strong control environment is critical for an effective system of internal control, as envisaged by the COSO Framework (Schneider & Becker 2011). In supporting this assertion, Soltani (2014) identifies the following as the main causes of recent high profile European and American corporate scandals: ethical dilemmas, ineffective boards, inefficient corporate governance, dominant CEOs, dysfunctional management behaviour, and weak (off-key) tone-at-the-top. Haubold and Throneberry (2010) agree with this view, arguing that the implementation of formal controls will not be sufficient to prevent fraud and that, rather than relying exclusively on formal controls, organisations should consider informal controls as part of their fraud-mitigation approach. Haubold and Throneberry (2010: 30) further posit that ethical leadership and accountability play a significant role in countering any emerging 'sense of entitlement' within organisations. Bederd (2011) also supports the argument that the tone-at-the-top is the most important line of defence in the deterrence of fraud.

As one of the components of the internal control universe, there is a perception that internal auditors are usually pre-occupied with risk assessment, control activities, information and communication, and monitoring activities, at the expense of the wider control environment (Geiger, Cooper & Boyle 2004). The suggested approach is thus to conduct cultural audits that focus on assessing the tone-at-the-top (Callaghan, Savage & Mintz 2007; Castellano & Lightle 2005). This approach is supported by Kaptein and Avelino (2005), who confirm the significance of the relationship between organisational climate and unethical behaviour, and further recommend the regular monitoring of management integrity. Kaptein and Avelino (2005:53) also suggest the use of an employee survey as a means of evaluating the effectiveness of the control environment. Wilkinson and Plant (2012) are in favour of extending the scope of the internal audit functions beyond compliance reviews, in order to incorporate the assessment of organisational governance through a governance maturity model.

### 3.3 The role of the internal audit

Holmes, Langford, Welch and Welch (2002:96-97) theorise that employees will display organisational citizenship behaviour (OCB) in environments where senior management demonstrates a strong support of ethical behaviour. In the same article, Holmes *et al* assert that internal control systems should not only refer to financial and operational information, but should also include ethical behaviour 'control' by top management (2002:96-97). In their interpretation of OCB, Holmes *et al* (2002:86) include behaviours such as altruism (helping others), courtesy (respecting others at work), sportsmanship (accepting or over-looking some irritations), civic virtue (putting the community first), and conscientiousness (behaviours that put the organisation first). The ethical leadership dimensions referred to by Holmes *et al* (2002), go far beyond adherence to formal rules and standards. The role played by auditors, both external and internal, during the publicised corporate scandals has demonstrated the difficulties auditors face in evaluating and reporting on the control environment, possibly due to the informal nature of the organisational climate and the limited availability of tangible evidence (Martin 2007:9). This requires a consideration of the wider body of stakeholder interests, as envisaged by Sikka (2009:868) and Richard, Baker & Owsen (2002: 785), who believe that, given the current societal dynamics, the role of auditors should be reconstructed.

The combination of monitoring compliance with legislation and the reviewing of control activities has always been proposed as the most effective approach to ensuring effective systems of internal control for financial reporting, including the prevention and detection of fraud (Rae & Subramanian 2008). However, the shortcomings of this approach as the sole deterrent against unethical behaviour have also been identified by Rockness and Rockness (2005), Kayes, Stirling and Nielsen (2007) and Michaelson (2006); their research provides some insight into the limitations of compliance in addressing unethical behaviour and generally supports the notion that, in order to ensure a strong ethical environment, it is necessary to go beyond rules and regulations. The limitations of the regulatory approach, highlighted by Lail, Macgregor, Stuebs and Thomasson (2013), suggests that, in order to influence the tone-at-the-top, it is best to integrate a compliance-based approach with an empowerment-based approach.

Although Arel, Beaudoin and Cianci's assessment of the impact of both ethical leadership and internal audit (2012:362) focuses on financial reporting they nevertheless found evidence of a significant conflation of the influences of internal audit and ethical leadership, and conclude that the assessment of moral intensity was as critical as the assessment of the effectiveness of internal controls. Focusing on internal controls and the perceptions of internal auditors, Fourie and Ackermann (2013:37) conclude that the principles of internal controls that make up the control environment component in the COSO Framework (COSO 1992; 2013) are in fact crucial to the effectiveness of internal control and that internal auditors should thus prioritise the evaluation of these principles during their audit activities.

It is against this background that the IIA, in an attempt to assist internal auditors' efforts to evaluate the tone-at-the-top, published two relevant and instructive guides - 'Auditing of the Control Environment' (IIARF 2011) and 'Assessing Organisational Governance in the Private Sector' (IIARF 2012a). However, these practice guides focus on identifying formal governance and management processes/practices, with emphases on documentation and mandatory requirements (either compelled by legislation or self-regulatory) (IIARF 2012a; 2011). This may fall short of embracing the empowerment-based approach advocated by Lail *et al* (2013). Although these two IIA practice guides (IIARF 2012a; 2011) may contribute significantly to creating awareness of the role played by internal auditors in assessing the tone-at-the-top, their compliance bias may render them inadequate to the task of addressing the behavioural dimensions identified by Holmes *et al* (2002).

The IIA acknowledges that auditing the control environment implies evaluating 'soft controls', a process that may render some of the current and long-established testing approaches ineffective, but does not provide sufficient guidance to internal auditors on how to gather evidence relating to these soft controls, in that it simply recommends that auditors should apply 'outside the box' techniques (IIARF 2011).

Interestingly, Rouillard and Giroux (2005) take a completely contrary position, drawing attention to the unintended consequences resulting from over-emphasis of ethics and values, particularly in public administrations. In their opinion, this over-emphasis may cause confusion and an undesirable shift from a 'disciplinary society' to a 'control society' (Rouillard & Giroux 2005:333). Their viewpoint may require further exploration through future studies.

The duty of internal auditors is to continuously employ methods that will improve professional judgement (Ruud 2003). The difficulty in providing solid professional judgement while evaluating the control environment, is that the control environment is not transaction-oriented and as such the usual substantive tests, walkthroughs, and the repeated performance of transactions may not be useful (Castellano *et al* 2005; Ramos 2004). While arguing for the expansion of ethics audits beyond compliance to a more holistic integrity approach, Plant (2008:23) suggests the use of surveys, focus groups, and interviews as effective and appropriate methods to gather information from relevant stakeholders.

Although there are various well-proven methods (including interviews, focus groups, desktop research, data analytics and the examination of objective historical data) that can be used to assess ethical leadership within organisations, Kalshoven, Den Hartog and De Hoogh (2011) and Kaptein and Avelino (2005) suggest that monitoring organisational integrity through people surveys and multidimensional questionnaires may assist in evaluating the quality of ethical leadership. This is because surveys are efficient, can be kept confidential and, most importantly, the data generated can be readily compared with other sets of data.

To ensure that the quality of leadership is meaningfully determined, analysis of the impact of the organisational ethical culture on managers and employees and, critically, the impact of the conduct of managers and employees on the organisation, should be conducted through these surveys and question-naires. This is more effective than relying on box-ticking exercises, the presence of a code of conduct, the auditing of compliance levels, and analysing statistics of fraud and disciplinary cases (Kalshoven *et al* 2011:51-52; Kaptein & Avelino 2005:47).

As a minimum, internal auditors are expected to conduct period assessments of the ethical climate, both enterprise-wide and for specific audit projects, using employee surveys (IIARF 2012b). However, in certain situations, internal auditors may rely on, and use the results generated by other service providers/experts that may have conducted these types of surveys; but it will still be incumbent on the internal auditors to have the capability to evaluate the relevance and effectiveness of the surveys for use as a basis for their professional judgement (IIARF 2012b). Furthermore, internal auditors are encouraged to work closely with the organisation's ethics office in order to be able to provide assurance to the ethics committee and/or audit committee on ethics-related matters, including ethical leadership (Dobie & Plant 2014:9).

## 4 METHODOLOGY

The study on which this article is based consists of a review of academic literature covering a range of disciplines, including internal auditing, ethics, governance, organisational design, and people management. A limitation of this study, which is also an area that has been identified for future research, is its basis on a literature review only, with no empirical results to enhance its contribution. The literature review was conducted in order to identify the dimensions of ethical leadership which could be used by assurance providers when assessing ethical leadership. The method applied in this study for identifying these dimensions is discussed in the subsequent sections.

### 4.1 Dimensions foundation

COSO (2013) defines the control environment as … "those standards, processes and structures that allow or trigger the implementation of internal controls". In other words, internal controls thrive in a favourable control environment. Noland and Metrejean (2013:98) regard the control environment to be the umbrella under which the other components thrive, as it represents the attitudes of an organisation's top executives.

The COSO Framework also classifies internal controls into three (3) objectives (operations, reporting and compliance), five (5) components (control environment; risk assessment; control activities; information and communication; monitoring), information and communi-cation, and monitoring activities, and seventeen (17) principles. The methodology used for this paper focuses primarily on the first component of internal control, namely the control environment and its five principles, as outlined below.

In the IPPF Practice Guide on auditing the control environment, the IIARF (2011) uses six elements that are very similar to the five principles of the COSO Integrated Framework (COSO 2013), as illustrated in the comparative table below.

**Table 1: Comparison between control environment principles of the COSO framework and the IPPF practice guide**

| COSO control environment | The IIA's IPPF practice guide: Auditing the control environment |
|---|---|
| Integrity and ethical values | Integrity and ethical values |
| Independence and oversight | Management philosophy and operating style |
| Structures, reporting lines and delegations | Human resource policies and practices |
| Assignment of authority and responsibility | 4. Assignment of authority and responsibility |
| Recruitment, development and retention of competent individuals | 5.   Competency of personnel |
|  | 6.   Organisational structure |

*Source: COSO (2013); IIARF (2011)*

Considering these similarities, a combination of the principles of the COSO Framework (COSO 2013) and the IIA Practice Guide (IIARF 2011) was used as the foundation for positioning those dimensions identified as essential for inclusion in an assessment of ethical leadership as a value-based approach. These dimensions were published in earlier research by King (2006:123), Kaptein (2008:924-927), Kalshoven *et al* (2011:54) and Resick, Hanges, Dickson and Mitchelson (2006:346).

Once selected, the ethical leadership dimensions were then grouped together according to inter-pretation, and their implications for the internal audit function were identified. Having identified the relevant implications of the ethical leadership dimensions, they were then evaluated against the general objectives of the five principles of the control environment (COSO 2013) and the six elements of the IPPF's Practice Guides (IIARF 2011) (see Table 1). To ensure simplicity, the paper only focuses on those dimensions that are mentioned by two or more studies, or that can be aligned or consolidated with other dimensions. Although the dimensions which do not meet these criteria are also regarded as relevant, their implications were not identified and therefore not considered for this study.

### 4.2 Identifying dimensions to assess ethical leadership

The four abovementioned studies have been chosen to demonstrate the complex nature of ethical leadership dimensions, as well as their similarities,

and their differences, as outlined in Table 2 below. The implications of these dimensions for the internal audit activity and the control environment have also been discussed above. These studies were considered because they explore ethical leadership dimensions from different perspectives, namely corporate governance (King 2006), ethics (Kaptein 2008) and organisational behaviour (Kalshoven *et al* 2011; Resick *et al* 2006).

**Table 2: Dimensions relating to ethical leadership**

| King (2006) | Kaptein (2008) | Kalsoven *et al* (2011) | Resick *et al* (2006) |
|---|---|---|---|
| Fairness | Clarity | Fairness | Character & integrity |
| Accountability | Congruency | Power sharing | Community/ People orientation |
| Responsibility | Feasibility | Role clarification | Motivating/ Encouraging/ Empowering |
| Transparency | Supportability | People orientation | Ethical awareness & accountability |
| Intellectual honesty | Transparency | Ethical guidance | |
| | Discussability | Environment Orientation | |
| | Sanctionability | Integrity | |

*Source: (as indicated)*

## 5 DISCUSSION ON RELEVANCE OF DIMENSIONS

There are obvious similarities between the studies, like fairness (Kalshoven *et al* 2011; King 2006), transparency (Kaptein 2008; King 2006), people orientation (Kalshoven *et al* 2011; Resick *et al* 2006), accountability **(**King 2006; Resick *et al* 2006) and integrity (Kalshoven *et al* 2011; Resick *et al* 2006). Some dimensions may be aligned to others through definitions and interpretations: for example, intellectual honesty (King 2006) shares similarities with character (Resick *et al* 2006).

### 5.1 Fairness

Both King (2006) and Kalshoven *et al* (2011) consider fairness as a dimension. King (2006:123) defines fairness as including those decisions that will allow the company to be perceived as a decent organisation and its business activities to be accepted as legitimate. Kalshoven *et al* (2011:53) define fair leaders as those who make principled and fair choices and who do not practice favouritism. In support of the dimension of fairness, Rae and Subramanian (2008) were able to positively link the quality of internal procedures to the perception of organisational justice and occurrences of employee fraud but, more significantly, they also established a link between the quality of internal control procedures, the organisational ethical environment, and internal audit activity. These findings point towards the inclusion of fairness as a dimension to be considered in an assessment of ethical leadership as part of a value-based approach.

### 5.2 Transparency

King (2006:123) defines transparency as the act of communicating important decisions truthfully and promptly, while ensuring that substance rather than form is communicated. Kaptein's definition (2008:926) focuses on employee awareness of the consequences of their actions and of the visibility of their actions to management and vice versa. Rockness and Rockness (2005) conclude that it is only when a strong organisational culture is combined with controls, legislation, rewards and sanctions, that an ethical and transparent financial reporting approach can be fostered. Ethical leaders therefore consider transparency as one of the key dimensions of the organisational culture.

### 5.3 People orientation

Kalshoven *et al* (2011:53) define people orientation as the demonstration of genuine concern for people, providing support for people, and making every effort to meet their needs. Resick *et al* (2006:347) consider people orientation to be the use of social power to serve the collective interests of others, instead of serving solely the interests of the organisation. As a corporate governance mechanism (Cooper, Leung & Wong 2006:828), the internal audit activity should also consider people orientation as a critical dimension to assessing ethical leadership as part of a value-based approach.

### 5.4 Accountability, responsibility and role clarification

Accountability is described as being accountable to the organisation that one represents, and setting ethical standards of conduct within the organisation (King 2006; Resick *et al* 2006). Both the COSO Framework (COSO 2013) and the IIA Practice Guide (IIA 2011) propose formal organisational structures, reporting lines, and the assignment of authority and responsibility as key to the effectiveness of the control environment (refer to Table 1). This implies that these three dimensions - accountability, responsibility, and role clarification - should be considered in the assessment of ethical leadership as part of a value-based approach.

### 5.5 Integrity and congruency

Integrity is described in the literature as the alignment between words and deeds (Kalshoven *et al* 2011:53), or the ability to do the right things despite external pressures (Resick *et al* 2006:346). Kaptein (2008) describes congruency as the consistency achieved with the alignment of management behaviour with organisational expectations. The promotion of integrity and ethical values as a key ingredient of the tone-at-the-top is mentioned in both the COSO Framework (COSO 2013) and the IIA IPPF Practice Guide (IIA 2011). As ethical values, integrity and congruency should be included as dimensions to be considered in an assessment of ethical leadership as part of a value-based approach.

## 5.6 Ethical guidance and ethical awareness

Ethical guidance as defined by Kalshoven *et al* (2011:53) is the process of communicating ethics, the presence of ethical rules, and the promotion of and reward for ethical conduct. Resick *et al* (2006:347) posit that ethical awareness is evident when leaders display and encourage ethically appropriate behaviour. The communication and monitoring components provide for the evaluation of formal ethics programs (beginning with the code of conduct and including the education and awareness campaigns), and are both specified by the COSO Framework (COSO 2013) and the IPPF's Practice guide (IIARF 2011). Ethical guidance and ethical awareness could thus be regarded as important dimensions to be considered in an assessment of ethical leadership.

## 6 CONCLUSION

Numerous studies have focused on ethical leadership and its influence and impact on organisational culture, performance and employee productivity; however, very little effort has been applied to identifying dimensions that will assist assurance providers (and internal auditors in particular), in assessing the state of ethical leadership within organisations. The literature supports the view that a strong control environment is critical for an effective system of internal control, and demands an ethical tone-at-the-top.

Although the COSO Framework (COSO 2013) outlines the principles that underpin the tone-at-the top as a component of the control environment, there is very limited research on how this sensitive area can be assessed and reported on by assurance providers, without reducing it to a mere compliance exercise. The IIA has provided guidelines to internal auditors for conducting audits that can assess the overall culture of the organisation as represented by the control environment. The IIA guidelines refer specifically to the tone-at-the-top, as reflected by the integrity and ethical values, management philosophy, operating styles, policies and procedures, structure, competence and accountability of its leaders. Although representing a commendable start, these guidelines still limit the assurance exercise to one of assessing compliance with the principles, and are not extensive enough to encourage a value-based approach.

The identification of ethical leadership dimensions to be included in the assessment tool for ethical leadership will enable internal auditors to follow a value-based approach. These dimensions, which have been identified with support from the literature, include fairness, transparency, people orientation, accountability, responsibility and role clarification, integrity and congruency, and ethical awareness. The relevance of these dimensions for internal audit activity was discussed. The proposal of these dimensions is a basic step that should ignite further research and the development of further phases that can be enhanced and tested for effectiveness. Further consolidation and testing of these ethical leadership dimensions will provide a sound basis for the development of an ethical maturity framework. This process could then culminate in a focused ethical leadership maturity framework that contributes to the effective assessment of the values necessary to drive organisations towards an integrated, sustainable ethical culture, as opposed to the current adherence to the minimum reporting requirements.

Future research should also focus on the extent to which internal auditors currently evaluate the control environment and ethical leadership in their audit activity. Furthermore, whether internal auditors possess the necessary skills to evaluate the control environment beyond compliance, particularly the evaluation of the ethical climate and the presence of ethical leadership within organisations, needs to be determined.

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