

Chapter 2

The Relationship Between Leadership Ethics and Organizational Success: Ethics and Organizational Success

Enoch T. Osei

Bowie State University, USA

Velmarie K. Swing

Oklahoma Wesleyan University, USA

ABSTRACT

Over the last few decades, business fraud and examples of scandalous management behaviors have sparked a lot of attention among several interested stakeholders. These increasing scandals have necessitated the question on the necessary steps required to prevent their frequent occurrence. The lack of commitment to strong ethical standards by management has been underpinned as the cause of ethical misconducts in organizations. The fiscal crisis of 2007-2009 witnessed many leadership misconducts and abuse of leadership responsibility. The fiscal crisis revealed the loss of about \$11 trillion in household wealth, 26 million Americans losing their jobs, and 4.5 million Americans who could not afford their mortgages. These events and statistics show the prevalent lack of ethical leadership in organizations. While leadership ethics is a concern for all stakeholders within business organizations in the United States, only a few segments of the industry are taking steps to incorporate ethical awareness within their organizations.

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INTRODUCTION

Financial misconduct is extensive within corporate institutions in the United States (Zabihollah, 2002). Examples of questionable behaviors include using company assets for personal activities, asking work colleagues to clock in time cards while not at work locations, receiving bribes and kickbacks through contract awards, and deliberately presenting false accounting procedures to deceive investors (Kumar & Lee, 2014; Wilmoth & O'Brien, 2011). These types of misconduct have resulted in reputational damage, lawsuits, incarcerations, millions of dollars in settlements, and sometimes, the collapse of worthwhile organizations (Reuber & Fischer, 2010). The victims of fraudulent conduct are employee underlings, investors, and consumers. The frequency of these problems underscores the importance of examining the ethical behaviors of leadership and assessing how leadership ethics relate to organizational success within the financial services sector (Kroll, 2012; Stahl & Sully de Luque, 2014).

The financial services crisis of 2007–2009 and its aftershocks caused financial services organizations to suffer from an unprecedented decline in their reputations among the general public. The immediate effect of this crisis was the loss of more than \$2 trillion in retirement savings and pension funds due to the steep decline of stock values in the U.S. market (Orszag, 2008). The long-term effect was massive unemployment in the United States, which reached 8.5% by the end of March 2009 (Bureau of Labor Statistics, 2010). Corporate scandals and abuse, such as the Enron scandal in the United States and Libor and Euribor in Europe, occurred within the financial services sector (Kraton, 2013). The financial services sector, even though highly regulated, is vulnerable to misconduct because of corporate executives' quest to enrich shareholders and senior executives while disregarding other stakeholders (McCuddy, 2012).

Although leadership ethics is a concern for all stakeholders within U.S. business organizations, only a few segments of the industry are taking steps to include ethical awareness within their organizations on the shortsighted argument that these measures reduce short-term profits (Ashforth, Gioia, Robinson, & Treviño, 2008). In many instances, corporate leaders are drivers of ethical or unethical conduct within their organizations (Leroy, Palanski, & Simmons, 2012). Ethical leadership is critical to organizational success because employees need to trust the integrity of their leaders and to model what their supervisors do (Sharif & Scandura, 2014). The Project Management Institute (2010) and Tanner, Brugger, Van Schie, and Lebherz (2010) identified responsibility, respect, fairness, and honesty as key ethical leadership values. According to Yueru, Weibo, Ribbens, and Juanmel (2013), corporate supervisors who demonstrate and act ethically are more likely to affect their employees in a positive

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