Chapter 63
The Role of Ethical Leadership in Ethical Organizations:
A Literature Review

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ABSTRACT

This chapter reveals the role of ethical leadership in ethical organizations, thus illustrating the theoretical and practical overviews of ethical leadership, organizational ethical culture, and organizational ethical climate; the significance of organizational ethical climate in organizational performance; and the significance of ethical leadership and organizational ethical culture in ethical organizations. The utilization of ethical leadership is crucial for ethical organizations that seek to serve suppliers and customers, increase business performance, strengthen competitiveness, and achieve continuous success in global business. Therefore, it is essential for ethical organizations to explore their ethical leadership applications, promote a strategic plan to systematically evaluate their practical advancements, and urgently respond to the ethical leadership needs of organizational members in ethical organizations. Applying ethical leadership in ethical organizations will greatly improve organizational performance and reach business goals in the social media age.

INTRODUCTION

An increasing number of researchers have become interested in understanding the ethical dimension of leadership (Langlois, Lapointe, Valois, & de Leeuw, 2014). Ethics is a basic component of authentic leadership and frame follower feedback (Nichols & Erakovich, 2013). Leadership has to be recognized within a social context of ideas and practices, which give meaning and form to how leadership is enacted and experienced (Clark, Denham-Vaughan, & Chidiac, 2014). Leaders influence their followers by acting as role models of ethical conduct and being the object of identification and emulation to followers (Huhtala, Kangas, Lamsa, & Feldt, 2013).

Business ethics has been emphasized throughout the past decade (Yang, 2014). García-Sánchez et al. (2013) stated that ethical issues have received growing attention recently, after corporate scandals and during the current economic crisis. Organizations that want to promote the high levels

of professionalism and business ethics should be especially interested in retaining employees who are more committed to the profession and organizational values (Shafer, Poon, & Tjosvold, 2013). Ethical leadership influences employees' innovative work behavior through the mediation of intrinsic motivation at both group and individual level (Yidong & Xinxin, 2013).

Organizational ethical culture is related to organizational innovation (Riivari & Lämsä, 2014). Organizational ethical climate can encourage employees to act in accordance with ethical standards because an organizational ethical climate provides an important signal to employees as to which behaviors are acceptable or not in organization (Choi, Moon, & Ko, 2013).

The strength of this chapter is on the thorough literature consolidation of ethical leadership in ethical organizations. The extant literature of ethical leadership in ethical organizations provides a contribution to practitioners and researchers by describing a comprehensive view of the functional applications of ethical leadership in ethical organizations to appeal to different segments of ethical leadership in ethical organizations in order to maximize the business impact of ethical leadership in ethical organizations.

BACKGROUND

Ethical issues have been implicitly analyzed as part of cultural characteristics or institutional arrangements (Thorne & Saunders, 2002). Ethics is the foundation for effective leadership (Green & McCann, 2011). Ethics has received a growing interest among leadership and management researchers (Ciulla & Forsyth, 2011; Howard, 2010; Kujala, Lamsa, & Penttila, 2011). Ethical concerns are an important area in business practices and research endeavors in the field of organizational chain management (Svensson & Wood, 2011). Ethics is becoming an element of required business school curricula (Friedland, 2012).

Leadership is a developmental process, which is based on the type of choice that a leader makes (Mostovicz, Kakabadse, & Kakabadse, 2009). Ethical leadership is recognized 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 (Brown, Trevino, & Harrison, 2005). Social learning theory suggests that consequences (rewards and punishment) facilitate learning in an anticipatory manner (Bandura, 1986).

Research on organizational ethical context is primarily represented within two constructs: organizational ethical culture and organizational ethical climate (Kaptein, 2008; Trevino & Weaver, 2003). Organizational ethical culture is defined as those aspects and conventions of organizational behavior that either encourage the organization to operate in a sustainable way or deter it from doing so (Kaptein, 2008; Trevino & Weaver, 2003). Organizational ethical climate is viewed as those perceptions and aspects that determine what constitutes ethical conduct (Victor & Cullen, 1988).

ROLE OF ETHICAL LEADERSHIP IN ETHICAL ORGANIZATIONS

This section reveals the theoretical and practical overviews of ethical leadership, organizational ethical culture, and organizational ethical climate; the significance of organizational ethical climate in organizational performance; and the significance of ethical leadership and organizational ethical culture in ethical organizations.

Overview of Ethical Leadership

Leadership is usually examined in the context of the supervisor-subordinate relationship within the boundary of work groups (Choi & Choi, 2009). Leadership should be a key source of ethical guidance for an organization (Brown et al., 2005;

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