


Chapter 9

Leadership Ethics

An Organizational Case Study

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ABSTRACT

Evidence of ethical organizational leadership is becoming increasingly rare, and without witnessing ethical leadership, the standards of organizational ethics cannot occur, let alone be sustained. The ethical orientation of an organization's culture is defined as the values, norms, and guidelines for enforcing ethical standards. In essence, the ethical climate of an organization's culture shapes ethical decision-making processes and the behavior that supports those processes. The following case study examines the ethical violations of a hypothetical legacy automotive company that recently agreed to deferred prosecution agreements with several government agencies. The case study references supporting scholarly literature that evaluates the correlation between senior leadership and the organization's culture. It provides advanced knowledge in Enterprise Risk Management (ERM), change management theory, and innovative solutions to remediate a severely compromised organizational ethical climate and prevent its recurrence.

INTRODUCTION

In 1997, Al Gini, Distinguished Professor Emeritus of Business Ethics at Loyola University Chicago, vividly characterized leadership as hard to define and moral leadership as even harder to find (Gini, 1997). “Perhaps, like pornography, we only recognize moral leadership when we see it” (Gini, 1997, p. 1). This striking yet apposite characterization of moral leadership wastes little time parsing the syntactic

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or overlapping etymology of the words *moral* and *ethical* but instead strikes at the heart of the profound scarcity of morally driven leadership within organizations (Kaptein, 2019). Indeed, from their Latin etymological roots, the context of right versus wrong reasoning and principles of behavior was thoroughly intellectually explored by Greek philosophers such as Socrates, Plato, and Aristotle and Roman philosophers like Cicero and Seneca. However, the principles of behavior based on broader philosophical frameworks or theories are often rooted in individual character and conduct (Brown et al., 2005). The principles or standards of leadership behavior extend well beyond individual conscience but influence organizational ethical norms (Kaptein, 2019). Evidence of ethical organizational leadership is becoming increasingly rare, and without witnessing ethical leadership, the standards of organizational ethics cannot occur, let alone be sustained (Gini, 1997; Kaptein, 2019).

In 2022, Lian et al. identified the unique effects of a leader's unethical behavior on employee moral disengagement and subsequent unethical behavior. The study pierced the traditional view that a leader's unethical behavior will merely produce greater risk in employees mimicking the same type of unethical behavior (Lian et al., 2022). Rather, the leader's unethical pro-organizational behavior may affect a broader range of employees' unethical behavior through moral disengagement and behavior-generative principles (Lian et al., 2022).

Lian et al. (2022) groundbreaking research confirmed that employees socially learn from the leader's engagement in unethical pro-organizational behavior by adopting moral disengagement and then engaging in not only unethical pro-organizational behavior but greater unethical self-interested behavior (Lian et al., 2022).

Johnson's (2021) study further elaborates on the leader's ability to influence the organization's ethical climate, which shapes the ethical decision-making processes and the behaviors that support those processes within the organizational culture. The ethical orientation of an organization's culture is defined as the values, norms, and guidelines for enforcing ethical standards (Pacanowsky & O'Donnell-Trujillo, 1983). Understanding how ethical climates are established within organizations requires considering person, contextual, and behavioral variables (Funder, 2001). The degree to which ethical behavior is adaptive is often defined relative to the situational requirements, and the behavior senior leaders exhibit in response to or anticipating the situational requirements (Mischel, 2004). In Fleeson (2004), the basic situational model proposes that the "immediate situation in which a person resides is the primary determinant of behavior" (p. 2). Therefore, a leader can act differently when faced with different circumstances and organizational challenges.

With 84 percent of leaders' behavioral variance due to situational influences, how does an organizational leader establish the proper foundation to support ethical decision-making and, therefore, an ethical climate, regardless of the situational influences? (Funder, 2001). Although the solutions are not always easy, leaders

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