

## **Creating Ethical Climate through Culture and Ethical leadership**

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**ABSTRACT :** *The paper examines ethical decision making from the perspective of three major dimensions namely leadership, culture and climate. Authors have attempted to relate leadership's ethical conviction with Kohlberg's ethical decision making model. The first part of this paper reviews previous research to analyze the relevance of leadership and culture, and climate. Second part of the paper discusses the relevance of Kohlberg's ethical decision making model, with reference to pre and post conventional model, in creating ethical leadership. Finally the paper suggest creating ethical climate through culture and ethical leadership.*

**KEYWORDS** - Leadership, conviction, culture, climate, ethics, Kohlberg

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### **I. INTRODUCTION**

With the raising expectations of the external environment on corporate ethical behavior and governance, it has become a necessity for organizations to grow through sustenance of ethical practices. 'Ethics' refers to an act whatever is right and good for humans (Donaldson and Werhane, 1993). There are major differences found between ethics and law. Ethics is universal but law is defined to the specificity of people living in a country. Though law has been designed for the guidance and protection of the people, all laws need not be ethically good and enforceable. Hence, good governance, notwithstanding the legal minima, requires heads of organization to decide on ethical dimensions. This paper discusses the leadership, culture and climate and how it can be sustained to preserve ethics in an organization.

### **II. LEADERSHIP AND CULTURE**

Many components of the culture are associated with the founder or other early leaders who articulated them as a company philosophy (Thompson et.al. 1995). Culture acts as set of principles that an organization rigidly adhere to frame company policies, a vision, a business strategy, or a combination of these. Over time, these cultural underpinnings get shared by company managers and employees and then persevere as new employees are encouraged to adopt and follow the professed values and practices. Bass (1998) and Schein (1992), supported the notion that the survival of an organization depends upon the change and responsiveness of a culture as influenced by effective leadership. Kotter and Heskett (1992) observed that the most obvious factor that distinguished the success of major cultural change from those that fail, was competent leadership. Parry (2002) in his findings reported that leaders who inspired to create adaptive cultures possessed the qualities of transformational leaders. Various reviewed researches' findings mentions that the leadership in an organization is the most obvious expression or reflection of the values which an organization follows. The beliefs and practices that are embedded in a company's culture transform themselves from the leadership's values and ideologies.

### **III. ORGANIZATIONAL CULTURE AND CLIMATE**

Anthropology refers *culture* as socially transmitted patterns for behavior with the characteristics of a particular social group. It refers to a way of life among particular people. In an organization, individuals' perception of problems and resultant judgments affect collective behavior in the organization (Smircich 1983). Culture is an instrument satisfying certain needs, or acts as an adaptive and regulative mechanism. Culture is seen as controllable by management and as phenomena that contributes to the overall balance and effectiveness of an organization. The definitions highlight culture as historical, including beliefs, values and norms that guides the action of cultural members, as being learned and as an abstraction from behavior and products of behavior (Keesing - Strathern 1998, Kroeber - Kluckhohn 1952). According to Martin, Culture is deeply held assumption, meaning, and beliefs.

The concept of *climate* relates to the subjective experience of various aspects of organizations' psychological atmosphere or to "behavior, attitudes and feelings common in the organization" (Ekvall & Ryhammar, 1999). Thus, Reichers and Schneider (1990) refers organizational climate as the shared perception of members in an organization. More precisely, climate is shared perceptions of organizational policies, practices, and procedures. Climate is individuals' sense-making of their proximal work environment. According

to Denison (1996), it can also be concluded that an organizational climate is a manifestation of the culture prevailing in the organization through practices and behaviour of organizational members. Based on the review of literatures, authors were able to establish and draw (fig: 1) a relationship between leadership, culture and climate. It can be interpreted as leadership's credos or ideologies, practices and behaviour influences members to develop assumptions, meanings, and beliefs which manifests climate such as practices and procedures.

#### **IV. SELF-SERVING LEADERSHIP'S CONVICTION AND KOHLBERG'S PRE-CONVENTIONAL LEVEL**

The Kohlberg's ethical decision making framework provides support in understanding the difference between the leadership that creates and sustains ethical climate with that of leadership that holds ethics as expendable if the legal framework agrees to it.

According to Kohlberg's framework (W.C. Craine, 1985 ) in ethical decision making, the pre-conventional level highlights that an individual is responsive to morality in terms of the personal consequences involved, such as punishment, rewards, or an exchange of favors, or focuses on the imposition of physical power by authority. Avoidance of punishment and unquestioning deference to power are valued in their own right, though not in terms of respect for an underlying moral order but supported by punishment and authority. A leadership that regards ethics as a legal compliance, treats it as a set of limits and something that has to be done (Paine, 1996). The leaders follow ethics with an objective of preventing unlawful conduct. Additionally, leaders also emphasizes rules to increase monitoring and penalties to enforce these rules. Longstaff (1986) argues that an overemphasis on legal compliance mechanisms could be at the expense of ethical reflection since people may have less reason to form their own opinions and take personal responsibility for the decisions they make. Leaders who take decisions with fear of reprisal, punishment or reward are bound to make unethical decisions frequently without breaking the law. These types of leaders are highly lawful and tend to be obedient to legal frameworks, but are highly vulnerable for opportunities to take decisions which are free of punishments. They set precedence to their followers and other members of the organization. Their direction may not affect the organizations but may affect the ethical and moral foundations when vulnerable situation is confronted. These type of leadership act as most self-serving, opportunistic and avoid the collectivism for larger good. These leaders can take chance of influencing the law makers to mend the law through lobbying which results in taking decision those are lawfully good but morally and ethically sinful.

#### **V. ETHICAL LEADERSHIP AND KOHLBERG'S POST CONVENTIONAL LEVEL**

Kohlberg in his post conventional level, the individual defines moral values and principles apart from established moral authority and relies on self-chosen principles, from a set of universally acceptable principles, to guide reasoning (W.C. Craine, 1985). In the social contract legalistic orientation of the framework, there is a clear awareness of the relativism of personal values and opinions and a corresponding emphasis on procedural rules for reaching consensus. In the universal ethical principle orientation, righteousness is defined by the decision of conscience in accord with self-chosen ethical principles appealing to logical comprehensiveness, universality, and consistency. These principles are abstract and ethical. There are universal principles of justice, of the reciprocity and equality of human rights, and of respect for the dignity of human beings as individual persons. Leaders who uphold these principles rise as ethical leadership. Members of organization perceive leader effectiveness with perceptions of the leader's honesty, integrity, and trustworthiness (Kirkpatrick & Locke, 1991). Leaders demonstrate 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 et al., 2005:120).

#### **VI. SUSTAINABILITY OF ETHICAL LEADERSHIP**

To attribute with the Kohleberg's framework, the sustainable ethical leadership practices can be ensured when justice is adhered, provides equal rights to employees, respect and treat the stakeholders at the grass root levels as well as refrains from exploiting them using law and lawmakers can sustain the ethical practices and influence the organizational members to follow it.

In the study done by Treviño (Treviño et al., 2000) introduced moral manager dimension under ethical leadership. This aspect of ethical leadership represents the leader's proactive efforts to influence followers' ethical and unethical behavior. Moral managers make ethics an explicit part of their leadership agenda by communicating an ethics and values message, by visibly and intentionally role modeling ethical behavior, and by using the reward system (rewards and discipline) to hold followers accountable for ethical conduct. Such explicit behavior helps the ethical leader to make ethics a leadership message that gets followers' attention by standing out as socially salient against an organizational backdrop that is often ethically neutral at best.

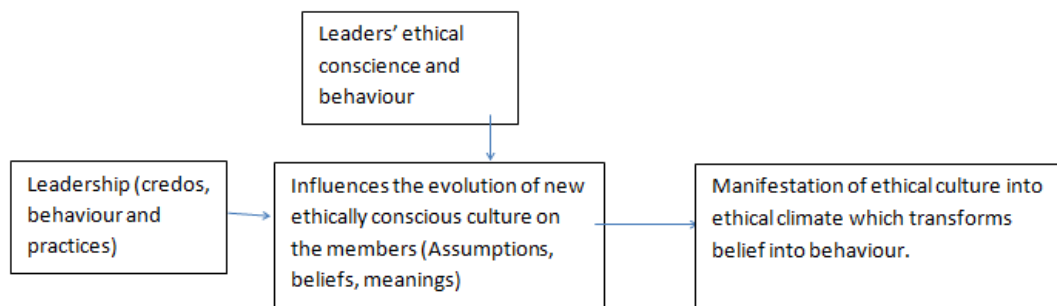
Social learning theory (Bandura, 1977) is based on the idea that individuals learn by paying attention to and emulating the attitudes, values and behaviors of attractive and credible models. Most individuals look outside themselves to other individuals for ethical guidance (Treviño, 1986). Ethical leaders are likely sources of guidance because their attractiveness and credibility as role models draw attention to their modeled behavior. Ethical leaders ensure that followers will pay attention to ethical leaders' modeled behavior. This modeled behavior when it becomes widely followed by the members of the organization results in culture.

### VII. ETHICAL LEADERSHIP INFLUENCE ON CULTURE

Treviño (1986) proposed ethical culture as a subset or slice of the organization's overall culture that can moderate the relationship between an individual's moral reasoning level and ethical/unethical behavior. Trevino also argued that individuals at higher levels of moral reasoning (principled individuals) should be less susceptible to influences from the organizational culture. Treviño (Treviño, 1990) later defined ethical culture in terms of the formal and informal behavioral control systems (e.g., leadership, authority structures, reward systems, codes and policies, decision-making processes, ethical norms, peer behavior, etc.) that can support either ethical or unethical behavior in an organization. (Treviño, et.al.1999) found that cultural factors (leadership and reward systems that support ethical conduct, fair treatment of employees, ethics incorporated in daily organizational decision-making, and a focus on employees) all contributed to positive ethics-related attitudes and behaviors. A culture becomes ethically strong and pervasive when it is moderated by the leadership's ethically conscious behaviour.

### VIII. ETHICAL CULTURE INFLUENCE ON CLIMATE

When the deeply held assumptions, beliefs, and meanings of ethics manifest in to practices and procedure finally results in ethical climate. Ethical climate has been defined as “the prevailing perceptions of typical organizational practices and procedures that have ethical content” or “those aspects of work climate that determine what constitutes ethical behavior at work” (Victor & Cullen, 1988, p. 101). Treviño et al. (1998) found that ethical climate and culture dimensions were significantly correlated and similarly influenced employees' organizational commitment. But, they found differences with regard to behavior. For example, in organizational settings with an ethics code, a culture-based dimension that they labeled overall ethical environment (including leadership, reward systems, and code support for ethical behavior) had the largest negative effect on unethical conduct. In non-code settings, a climate focused on self-interest was most strongly associated with unethical behavior.



**Fig. 1: Relationship between leadership, culture and climate**

### IX. CONCLUSION

It is important for leadership to understand the nature of ethics over and above the economics of value creation. Ethics is an entity that is above the any legal structure. Ethics is not a commodity that can be traded in stock markets. It is conviction of mind that influences the people's decision in the organization and very particularly the leadership. The leadership's decision based on moral dimension of human action and must serve as guide to corporate governance. Organizations' practices and procedures should be guided by its strong ethical leadership and culture. The credos designed by the leaders, their behaviour, their act of honesty and integrity should influence the environment within the boundaries of the organization to act ethically and set as guiding force for the members. Act of leadership towards the ethics must be obedience to an unenforceable entity. (Kidder, 1995). Such an act of leadership can create a DNA for sustaining ethical decision making.

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