

# The GovNet eJournal

**Leading with Integrity:** Ethical leadership—A fundamental Principle of Integrity and Good Governance

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*GovNet eJournal*, Vol. 1, No. 1. (Oct-Nov, 2007). Pp. 22-44.

URL:

<http://www.griffith.edu.au/epress>

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The GovNet eJournal is the online journal for the Australian Research Council Governance Research Network.

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# Leading with Integrity: Ethical Leadership — A Fundamental Principle of Integrity and Good Governance

Arthur Shacklock and Melea Lewis

## Abstract

The assessment of 'Integrity Systems', sometimes referred to as 'Ethics Regimes', has generally focused on national perspectives, whether the right institutions, policies and procedures exist to achieve an effective national integrity system. The recently released Australian National Integrity System Assessment report highlighted the importance of mapping integrity systems and analysing whether the various elements have the resources to do their job (capacity), how they interact (coherence) and whether they are yielding the desired results (consequences).<sup>1</sup> However, no matter how sound an integrity system may be, without the right human capital operating within it, such a system can achieve very little. In practice, it is people, primarily leaders at all levels, who drive organisational direction, create and sustain an ethical climate and provide major incentives or disincentives for organisational and employee ethical behaviour.

This paper attempts to extend this framework beyond a systems and national focus to more fully recognise the interplay of complex human relationships within individual organisations. In this context the quality of the leadership is a critical dynamic as it deeply influences the predictability of the behaviour of people in organisations. Therefore, the development of ethical leadership skills, underpinned by sound ethical decision making, is fundamental to creating organisations in which people 'Lead with Integrity'.

This paper examines some of the relevant and recent literature on ethical leadership, focusing on the key issues surrounding ethical leadership roles and how these might be better understood, assessed and enhanced, not just as valuable qualities in their own right, but as a key to organisational integrity. The paper then presents some recommendations for actions within organisations to ensure and sustain ethical leadership. Finally, the paper recommends further research to assess the current standing of ethical leadership and ways in which it can be measured for improvements over time.

## Organisational Integrity Systems

### Introduction

Over the past ten years there has been a particular focus on the issue of integrity systems. This has primarily been aimed at national perspectives with examinations of entire national political and public sector management systems. Examples include Transparency International's NIS Country Studies<sup>2</sup> and various detailed reports by organisations such as the World Bank, Asian Development Bank and others. This ongoing 'NIS' work has been expanded upon in recent times by the work done by the Key Centre for Ethics Law, Justice and Governance (KCELJAG) at Griffith University in Australia, in collaboration with Transparency International Australia.

The resulting recently released report on the Australian National Integrity System Assessment entitled 'Chaos or Coherence'<sup>3</sup>, examined the capacity, coherence and consequences of the four Australian integrity

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<sup>1</sup> Brown, A.J et al (2005) Chaos or Coherence? Strengths, Opportunities and Challenges for Australia's Integrity Systems, *National Integrity Systems Assessment (NISA) Final Report*.

<sup>2</sup> *Transparency International National Integrity System Country studies*  
[http://www.transparency.org/policy\\_and\\_research/nis/regional](http://www.transparency.org/policy_and_research/nis/regional).

<sup>3</sup> Brown et al (2005) Chaos or Coherence? Strengths, Opportunities and Challenges for Australia's Integrity Systems, *National Integrity Systems Assessment (NISA) Final Report*.

systems studied. This quest of integrity system analysis has also been summarised in Shacklock (2004)<sup>4</sup>. This report highlighted many important requirements for an integrity system to work in practice. In so doing it concentrated primarily on the structures and inter-relationships of agencies and functions, the 'bricks and mortar' that support and provide the context for integrity and good governance at the national level. This again placed major emphasis on structural and operational soundness, based on the quite reasonable belief that, with the right structures and processes in place, operating effectively together, there is a far better chance of integrity and good governance outcomes. The Australian NISA report went further than before in stressing the need to look beyond the idea of free-standing pillars of good governance approach<sup>5</sup> by extending this to examine the important interactions and capacity of the various systemic elements. The work of KCELJAG has also extended the metaphor in different ways. For example moving from Pope's 'Greek Temple' pillars, through what might be called a 'Rubik's Cube' type analogy, which describes three intersecting planes of data (of sectors, levels and dimensions) and then on to the analogy of a 'bird's nest', in which the supports are not concrete pillars but twigs carefully interwoven to give even greater strength and durability against any external threats to their integrity.<sup>6</sup>

While this is unquestionably a significant enhancement on earlier assessment approaches, it still does not provide the complete picture. Indeed one of the recommendations of the Australian NISA research was for there to be requirements for at least 'minimum integrity education and training standards'<sup>7</sup> across the Australian public sector to ensure that people, especially leaders, were fully aware of their ethical responsibilities. There was a recognition that, even in a country like Australia, which fares well on the various integrity indexes<sup>8</sup> and has a relatively good system of integrity agencies and inter-connected functions in place, containing many key elements of capacity and coherence, it does not necessarily follow that the optimum desired consequences are always being delivered — hence the report's title.

The problem is that no matter how effective a system itself may be, in the final analysis it is the people who work within the organisations that provide the key delivery element. Only if the people are encouraged and developed in ways that will support ethical behaviour, will the system be successful in delivering and sustaining integrity. If the people working in an organisation are themselves without, or weak on, integrity and if the leadership lacks strengths and a commitment to ethical behaviour, then no matter how good the structure itself may appear the desired result of having an entity or a system based upon integrity will be illusive.

In particular, the achievement of effective leadership, the objectives of good governance and ethical behaviour will likely be unachievable in practice. This is because leaders at all levels from the CEO down to the first line supervisor, are the people at the coalface who set the scene, drive the organisational direction, set the ethical climate and, in the end, provide the major influence on employee behaviour, for better or for worse. This follows that old management adage that 'you get more of what you reward' (or conversely more of what you do not punish!). In reality, most people will behave largely according to the expectations of their leadership except when, in rare cases, they may be prepared to stand up to that leadership and become non-compliant with unethical demands or expectations.

As far as we are aware, this paper is the first attempt to bring together relevant content from the various literatures on national integrity systems, ethical leadership and strategies required at the organisational level to achieve a 'Leading with Integrity' outcome. The paper has four purposes:

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<sup>4</sup> Shacklock, A.H.. (2004). The Pursuit of Integrity Systems, refereed paper presented to the 'International Association for Business and Society' 15th Annual Conference, Jackson, Wyoming, 3 – 7 March 2004. Published in IABS Conference Proceedings, pp. 26–30.

<sup>5</sup> Pope J (2000) *Transparency International Source Book*, Transparency International <http://www.transparency.org/publications/sourcebook>

<sup>6</sup> Sampford, C., Smith R. & Brown A. J. (2005) 'From Greek Temple to Bird's Nest: Towards a Theory of Coherence and Mutual Accountability for National Integrity Systems' *Australian Journal of Public Administration* 64 (2):96–108.

<sup>7</sup> Brown et al (2005), Recommendation 12.

<sup>8</sup> For example, ranked 9 out of 158 according to Transparency International's 2005 Corruption Perceptions Index (CPI) [http://www.transparency.org/policy\\_and\\_research/surveys\\_indices/cpi/2005](http://www.transparency.org/policy_and_research/surveys_indices/cpi/2005)

1. To examine the links between the notion of 'integrity systems' as this is addressed at a national level and the relevance of this thinking to organisational settings.
2. To offer a preliminary scan of some of the recent literature on ethical leadership, particularly as regards its component parts (although in the space of this paper this cannot be a complete coverage).
3. To examine and suggest some of the key Human Resource Management strategies which organisations should be pursuing to enhance their prospects of achieving a 'Leading-with-Integrity' position.
4. The conclusions and recommendations, which suggest specific actions for organisations and raising questions for a desirable research agenda to empirically examine further the issues contained in the paper.

The primary focus of this paper is to scan the horizon of ethical leadership, concentrating at the organisational level. There will not be space here to discuss in detail the somewhat different nuances of political leadership. Nevertheless, the notion of integrity systems is still a relevant metaphor at the individual organisational level. One can very easily translate the issues in national integrity into organisational integrity, by examining instead the various segments of an organisation which together purport to protect and support the organisation's integrity. The notion of an integrity system (capacity, coherence and consequences) is just as valid, once organisational characteristics are defined in similar ways. Then the leadership issue becomes just as critical here as in political leadership or the leadership of integrity agencies in any national agenda.

This focus on the entire organisational system has also been discussed by others, most recently for example Kubal, Barker and Coleman. They have argued that organisations must spend time and resources in developing a comprehensive approach to corporate ethics.<sup>9</sup> They emphasise the need to address ethics training programs, applying key principles, making ethics a part of the organisation's business strategy, measuring ethical performance, investing resources in ethical performance, communicating regularly and tapping into the organisation's communication grapevine.

While this paper will attempt coverage of organisational leadership, we hope that many of the issues and principles that present themselves and are reported here will transfer equally as well to other spheres of influence from political leadership through to leadership roles in less formal and less structured settings.

Some of the key questions which arise for organisations are as follows:

- How ethical are our organisation's leaders?
- How effective are recruitment and advancement practices in selecting ethical leaders?
- How effective are the current practices in developing ethical leadership through awareness raising, education and training?
- How effective are performance management tools in stimulating and assessing and rewarding ethical leadership?
- How well, or poorly, equipped are our organisation's leaders in terms of ethical decision-making skills?
- What is the leader's role and impact in formulating, stimulating and sustaining the ethical climate of their organisation and work group and how well is this being done?

While we do not propose to try to answer these questions definitively in this paper, we do hope to scan the horizon of relevant issues and literature in order to bring the various facets of this ethical leadership requirement into sharper focus.

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<sup>9</sup> Kubal, D., Baker M. & Coleman (2006) 'Doing the Right Thing: How Today's Leading Companies Are Becoming More Ethical' *Performance Improvement* 45(3): 5.

## Leading with Integrity (the components)

In this second part of the paper we are focusing specifically on organisational leaders from the CEO down (as distinct from political or others areas of leadership) but many of the principles remain the same. The term integrity has been variously defined. Integrity comes from the Latin 'integritas' meaning uprightness, truthfulness, authenticity, reliable consistency between word and deed and as such it describes a kind of 'wholeness' as described by Worden.<sup>10</sup> We are told: 'There are many ways to fall short of integrity and many rationalizations for doing so', but that '[i]t is the leader's role to send the clear and pragmatic messages that good ethics is still the foundation of good business'.<sup>11</sup>

Koehn defined integrity as 'the compassionate and receptive work of making the self whole and enduringly happy through critically and assiduously separating who we truly are from the false ego.'<sup>12</sup> However, Koehn found that less than half of employees surveyed<sup>13</sup> perceived their senior leaders to be people of high integrity and suggested that there was a considerable need for a refined definition of 'integrity'. This is necessitated by the misleading nature of the way in which the term is regularly used in business.

Integrity has also been described as: 'adhering to what one believes to be right, especially when a price is paid in foregoing immediate gain.'<sup>14</sup> So by 'leading with integrity' we are talking about behaviours in the leader that seek to yield the most moral outcomes, even when there is a cost (however short-term) to the leader as a result.

Sampford has suggested that integrity involves asking questions about our values, giving honest and public answers and attempting to live by those answers.<sup>15</sup> Similarly, Bloskie concluded that integrity simply: 'implies a consistency or a coherence between one's personal beliefs and behaviour' and is the result of a 'coherence of values, aims and behaviours.'<sup>16</sup> Simons has also described integrity as: 'the perceived degree of congruence between the values expressed by words and those expressed through action.'<sup>17</sup> So it is theoretically arguable that one could have integrity and yet not be a good person. However, the importance of integrity as part of a values framework in achieving workplace spirituality and its links to respect, justice, responsibility and trust in organisations clearly has direct relevance to the behaviour of leaders.<sup>18</sup>

## Ethical Leadership

Ethical leadership has been defined in many ways and although much has been said about the importance of ethical leadership,<sup>19</sup> the topic has received somewhat patchy empirical attention. One recent definition

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<sup>10</sup> Worden, S. (2003) 'The role of integrity as a mediator in strategic leadership: A recipe for reputational capital' *Journal of Business Ethics* 46(1): 31–44.

<sup>11</sup> Bloskie, C. (1995) 'Leadership and integrity' *Optimum* 26(2): 37.

<sup>12</sup> Koehn, D. (2005). 'Integrity as a business asset.' *Journal of Business Ethics* 58(1): 125–136, p. 132.

<sup>13</sup> Survey conducted by Walker Consulting Firm – Per Koehn, D (2005) see Clark S 'Ethical Lapses Can Destroy Business From Within' *Bizjournals*, January 6 2003 at [http://bizjournals.com/extraedge/consultants/company\\_doctor/2003/01/06column345.html](http://bizjournals.com/extraedge/consultants/company_doctor/2003/01/06column345.html). Also see Walker survey data [www.walkerinfo.com](http://www.walkerinfo.com)

<sup>14</sup> Watson (1991) p. 186 in Worden, S (2003) 'The role of integrity as a mediator in strategic leadership: A recipe for reputational capital' *Journal of Business Ethics* 46(1): 31–44.

<sup>15</sup> For a recent discussion and application see Sampford C & Berry V (2004) 'Shareholder Values, Not Shareholder Value: The Role of 'Ethical Funds' and 'Ethical Entrepreneurs' in Connecting Shareholders' Values with their investments' *Griffith Law Review* 13(1): 115–123, p. 121.

<sup>16</sup> Bloskie, C (1995) 'Leadership and integrity' *Optimum* 26(2): 37.

<sup>17</sup> Simons, T. L. (1999) 'Behavioral integrity as a critical ingredient for transformational leadership' *Journal of Organizational Change Management* 12(2): 89, p. 90 in Worden, S (2003) 'The role of integrity as a mediator in strategic leadership: A recipe for reputational capital' *Journal of Business Ethics* 46(1): 31–44, p. 33.

<sup>18</sup> Jurkiewicz, C. J. and R. A. Giacalone (2004) 'A Values Framework for Measuring the Impact of Workplace Spirituality on Organizational Performance' *Journal of Business Ethics* 49(2): 129.

<sup>19</sup> For example, see Ciulla, J. (Ed) (1998) *Ethics, the heart of leadership* Westport, Conn., Praeger.

tells us that ethical leadership should be about ‘the creation and fulfilment of worthwhile opportunities by honourable means.’<sup>20</sup>

In a recent qualitative study of leaders within the UK nursing profession, for example, some 15 themes emerged and it was found that leaders, in that profession anyway, are not judged so much by their ethical decision making skills or for managing change, but rather it is assumed, by virtue of their status and success, that leaders do lead with integrity<sup>21</sup>.

One of the most comprehensive summaries of ethical leadership is that by Caldwell, Bischoff and Karri.<sup>22</sup> Their paradigm is useful in relating the insights or nature of leaders, whom they call the umpires, and the ‘Five Beliefs’ model developed by Schein and related work by Senge, regarding how beliefs yield values in the workplace. This focuses on a leader’s beliefs about his/her self-perception (talents, limits, individual worth, goals, roles, spirituality), beliefs about others (the nature of people, complexity of interrelationships), beliefs about the past (events, patterns, and values from the past, significant emotional events, key historical factors, the duty that we owe the past), beliefs about reality (its simplicity and complexity; what it is perceived to be), and finally beliefs about the future (tension between reality and the ideal future, the nature of limits, longer term notions of an achievable future). This is an incomplete summary of their work, but it indicates the important nature and complexity of beliefs and values that the leader brings to every leadership encounter or crisis.

Caldwell et al also show that the characteristics of leaders combined with the beliefs that they bring to an ethical dilemma comprise a useful framework with which leaders develop their own self-identity as ethical leaders. They conclude that the real need is for ‘a model of leadership based upon teamwork, community, and ethical and caring behaviour. This emerging approach to leadership and service encompasses the concepts of stewardship which are normatively ethical and which we think best serve people and organizations long-term.’<sup>23</sup>

It appears that ethical leadership requires a range of skills and achievements in order to be accepted as fully operational. The more obvious requirements include: a concentration on values-based leadership, leading from the top (especially where the CEO is concerned), the ability to engender an ethical climate, ethical decision making skills, a combination of both transformational (including charismatic) and transactional leadership (albeit with reservations applied to both) and a particular focus on the complexities of interpersonal relationships (eg: using leader-member exchange skills). It is the combination of these types of qualities and skills that need to be fostered in an organisation, if it hopes to achieve a ‘Leading with Integrity’ outcome. The paper will now deal briefly with some of these essential ingredients.

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<sup>20</sup> Rubenstein, H (2003) *Ethical Leadership: the State of the Art Growth Strategies* <http://growth-strategies.com/subpages/articles/069.html>. For general discussion see also Rubenstein, H. (2005) ‘The Leadership Revolution’ *Vital Speeches of the Day* 71(11): 349

<sup>21</sup> Storr, L. (2004) ‘Leading with integrity: a qualitative research study’ *Journal of Health Organization and Management* 18(6): 415.

<sup>22</sup> Caldwell, Bischoff & Karri (2002) Caldwell, C., S. J. Bischoff, et al. (2002). ‘The Four Umpires: A Paradigm for Ethical Leadership.’ *Journal of Business Ethics* 36(1–2): 153–164.

<sup>23</sup> Caldwell, Bischoff & Karri (2002). ‘The Four Umpires: A Paradigm for Ethical Leadership.’ *Journal of Business Ethics* 36(1–2): 153–164, p. 162.

## *Values-based Leadership*

In any setting where the achievement of values-based governance is sought, the issue of leaders' values becomes integral to establishing an ethical organisation. The literature in this area is wide and varied, but the case for a strong focus on, and understanding of, leader values and beliefs is well established. There is little doubt that ethical leaders are those who adhere to strong personal values emanating from notions of correctness, fairness, equity and reasonableness. So we are looking for leaders who can deliver across a range of requirements, but whose personal integrity is unquestionable.

One such values-based leadership model was based on the tensions among values, interests and power (VIP) and tensions that exist within and among citizens, workers and leaders (CWL).<sup>24</sup> The model suggested that the promotion of value-based practice was based on the ability to reduce these tensions. The study found that leaders had four main roles in the promotion of value based practice: clarification of values, promotion of personal harmony, enhancing the congruence of VIP among CWL and the confrontation of individuals or groups undermining values or abusing power.

## *Integrity from the Top*

The importance of the commitment of senior level leaders, particularly the Chief Executive Officer cannot be overstated in the quest for an ethical organisation in which people at all levels lead with integrity. Numerous authors in the leadership field have referred to the special importance of people at the very top of the organisation, those who hold senior executive roles.<sup>25</sup> However, in a 2002 CBS poll, less than one-third of respondents said that they believed most CEOs are honest.<sup>26</sup>

In dealing with the aftermath of the Enron/Andersen collapses, a number of authors have spoken of the considerable impacts of CEOs on the corporate culture of an organisation, with the conclusion being: '[a]n important challenge to corporations and CEOs is the creation of a 'tone at the top' that promotes ethical conduct and permeates the corporate culture.'<sup>27</sup> One suggested method for assisting corporate leaders with the implementation of processes associated with the United States' Sarbanes-Oxley Act 2002 was a program<sup>28</sup> designed to internalise within an organisation ethical behaviour and the appropriate role of leadership, by focussing the program on the main issues facing leaders: freedom, principle, realism, grand strategy, and accountability.<sup>29</sup>

Murphy found that the CEOs in his study all 'accepted the need to clarify ethical dimensions of business and to provide corporate leadership by example.'<sup>30</sup> McDonald<sup>31</sup> recognised that theoretical and empirical research have a contribution to make to the study of ethical leadership, however such research is lacking in practical application. McDonald suggests some practical measures that improve ethics in organisations that include the need to activate CEO and senior management input, communication with and amongst senior managers to ensure support for an ethical program to be implemented into an organisation, the

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1. <sup>24</sup> Prilleltensky, I. (2000). 'Value-based leadership in organizations: Balancing values, interests, and power among citizens, workers, and leaders.' *Ethics & Behavior* 10(2): 139–158.
  2. <sup>25</sup> LeClair, D. T., O. C. Ferrell, et al. (1998) *Integrity Management: A Guide to Managing Legal and Ethical Issues in the Workplace*. Tampa, FL, University of Tampa Press; Waters, J. A. (1988) 'Integrity Management: Learning and Implementing Ethical Principles in the Workplace' in S. Srivastara, *Executive Integrity: The Search for High Human Values in Organizational Life*: San Francisco, Jossey-Bass: 172–196.
  3. <sup>26</sup> Wallington, P. (2003) 'Honestly?! Ethical behavior isn't easy, just essential. Here's how to run an honest organization and be an ethical leader' *CIO* 16(11): 1.
  4. <sup>27</sup> Koestenbaum P, Keys P J & Weirich, (2005) 'Integrating Sarbanes-Oxley, Leadership, and Ethics' *The CPA Journal* 75(4): 13.
  5. <sup>28</sup> Entitled 'Leadership Diamond Realisms'.
  6. <sup>29</sup> Koestenbaum, P., Keys P. J., & Weirich (2005) 'Integrating Sarbanes-Oxley, Leadership, and Ethics' *The CPA Journal* 75(4): 13, p. 15.
  7. <sup>30</sup> Murphy, P. E. (1995) 'Corporate-Ethics Statements – Current Status and Future-Prospects' *Journal of Business Ethics* 14(9): 727–740.
  8. <sup>31</sup> McDonald, G. (2000) 'Business ethics: Practical proposals for organisations' *Journal of Business Ethics* 25(2): 169–184.

establishment of an ethical code of conduct, clarification of objectives, ethical training to modify internal values, recognition of ethical violations, the incorporation of ethical requirements into new employee programmes, ensuring the use of both discipline and rewards for behaviour and encouraging awareness amongst members of the organisation of their role in developing a climate that is ethical.<sup>32</sup>

Similarly, Hood<sup>33</sup> conducted a study to analyse the relationship between CEO values, leadership style and ethical practices in organisations. The study considered four categories of values<sup>34</sup> including personal, social, competency-based and morality-based as well as ethical practices such as formalised ethical codes and diversity training. According to this study, all four categories of values were positively and significantly related to transformational leadership; morality-based and personal values were positively related to transactional leadership; and laissez-faire leadership was negatively related to competency-based values.

### ***Ethical Climate***

Clearly leaders have a major influence on the nature of the climate that surrounds them. The construct of ethical climate is not new. Drexel and Elliot stressed that managers need to provide continuing support and participation if they are to maintain an ethical climate, stating: ‘the managers must back up their commitment to an ethical atmosphere by positive outcomes in terms of promotion and other rewards.’<sup>35</sup> The body of work in this area has confirmed, however, that ethical climate is a multi-dimensional phenomenon that has many determinants.<sup>36</sup> It is clear that ‘the ethical climate within which they (people) work, their leadership, and the pressures acting upon them are all factors that can influence what might be their natural inclination based upon their moral development as individuals. In other words, people in organisations more often than not have to compromise if they wish to survive to fight another day.’<sup>37</sup> Additionally, Khuntia and Suar developed a scale for the measurement of ethical leadership, finding that ethical leadership was evidenced by two key factors: the extent of empowerment of employees by their leaders and the identification of motive and character in the leader.<sup>38</sup> Further confirmatory work by Schminke, Ambrose and Neubaum has examined the links between leader moral development and its impacts on ethical climate taking into account the age of the organisation as a factor. The sum total of this body of work establishes clearly that ethical climate affects and is affected by the behaviour of leaders, as

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5. <sup>32</sup> McDonald (2000) p. 181.

6. <sup>33</sup> Hood, J. N. (2003) ‘The relationship of leadership style and CEO values to ethical practices in organizations’ *Journal of Business Ethics* 43(4): 263–273.

7. <sup>34</sup> Based on Rokeach’s 1973 typology.

<sup>35</sup> Drexel, G. F. and Z. Eliot (1981) ‘Integrity in Work and Interpersonal Relations: A Perspective for the Public Manager’ *Public Personnel Management* 10(1): 110.

<sup>36</sup> Upchurch, R. S. and S. K. Ruhland (1996) ‘The organizational bases of ethical work climates in lodging operations as perceived by general managers’ *Journal of Business Ethics* 15(10): 1083–1093; Victor, B., Cullen, J. (1987) ‘A theory and measure of ethical climate in organizations’ *Research in Corporate Social Performance and Policy* 9: 51–71; Victor, B. and J. B. Cullen (1988) ‘The organizational bases of ethical work climates’ *Administrative Science Quarterly* 33(1): 101–125; Victor, B., J. B. Cullen & Stephens (1989) ‘An ethical weather report: Assessing the organization’s ethical climate’ *Organizational Dynamics* 18(2): 50–62; Wimbush, J. C. and J. M. Shepard (1994) ‘Toward an understanding of ethical climate: Its relationship to ethical behavior and supervisory influence’ *Journal of Business Ethics* 13(8): 637–647; Wimbush, J. C., J. M. Shepard, et al. (1997) ‘An empirical examination of the relationship between ethical climate and ethical behavior from multiple levels of analysis’ *Journal of Business Ethics* 16(16): 1705–1716; Engelbrecht, A. S., Aswegen A. S. v., & Theron (2005) ‘The effect of ethical values on transformational leadership and ethical climate in organisations’ *South African Journal of Business Management* 36(2): 19; Singhapakdi, A. and Vitell S. J. (1991) ‘Analyzing the ethical decision making of sales professionals’ *The Journal of Personal Selling & Sales Management* 11(4): 1; Singhapakdi, A. and Vitell S. J. (1993) ‘Personal values underlying the moral philosophies of marketing professionals’ *Business & Professional Ethics Journal* 12(1): 91.

<sup>37</sup> Fraedrich, J., Thorne, D. M. & Ferrell (1994) ‘Assessing the application of cognitive moral development theory to business ethics’ *Journal of Business Ethics* 13(10): 829–839.

<sup>38</sup> Khuntia, R. and D. Suar (2004) ‘A scale to assess ethical leadership of Indian private and public sector managers’ *Journal of Business Ethics* 49(1): 13–26.

well as that it can be usefully measured.<sup>39</sup>

### ***Ethical Decision-making***

There is a considerable body of work on the issue of how to make better ethical decisions and the various dimensions and complexities of this leadership skill.<sup>40</sup> The various models are very helpful in the pursuit of enhancing ethical leadership.<sup>41</sup> For example, Koehn suggests that the value of integrity in the business setting is based on the way decision making with integrity avoids short term thinking and acting, assists with maintaining healthy relations with stakeholders, promotes genuineness when dealing with customers, promotes decision making that is undertaken with care and diligence, assists with seeking diverse perspectives and encourages introspective analysis that develops creativity.<sup>42</sup> Peters<sup>43</sup> considers the need for ethical leadership and discusses the ethics of leaders motives, influence process strategies, and the nature of the self-transformation required for ethical leadership. Similarly, Kanungo & Mendonca stress that the uncertainties of the leader's role can be turned into opportunities in which the leader's decisions can communicate his/her values.<sup>44</sup>

### ***Transformational and Transactional leadership***

Debates about ethical leadership have renewed the interest in the different impacts of transformational and transactional leadership. Included in this is the work on charisma as a factor closely associated with transformational styles.

Since the notion was developed some years ago, transformational leadership has been widely heralded in the literature as a desirable switch from traditional transactional forms of leadership.<sup>45</sup> Its focus on idealised influence, inspirational motivation, intellectual stimulation and individualised consideration suggests a very likely ethical link. Avolio argued that the idealised influence frame has clear ethical connotations.<sup>46</sup> Idealised influence means that transformational leaders are important as role models in 'walking the talk' and thus setting the inspirational ethical standards. His work has been extended and amplified in various ways by, for example: the relationship between moral reasoning and transformational and transactional leadership;<sup>47</sup> and work alienation as a product of these different leadership approaches.<sup>48</sup>

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<sup>39</sup> Schminke, M., M. L. Ambrose & Neubaum (2005) 'The effect of leader moral development on ethical climate and employee attitudes' *Organizational Behavior and Human Decision Processes* 97(2): 135–151.

<sup>40</sup> For example Banaji, M. R., M. H. Bazerman & Chugh D. (2003) 'How (un)ethical are you?' *Harvard Business Review* 81(12): 56; Bloskie, C. (1995) 'Leadership and integrity' *Optimum* 26(2): 37.

<sup>41</sup> Ferrell, O. C. and Gresham L. G. (1985) 'A contingency framework for understanding ethical decision making in marketing' *Journal of Marketing* 49(3): 87–96; Hunt, S. D. and Vitell S. J. (1986) 'A General Theory of Marketing Ethics' *Journal of Macromarketing* 6(1): 5–16; McDonald, M. (1998) *A Framework for Ethical Decision-Making*, UBC Centre for Applied Ethics; Nash, L. L. (1981) 'Ethics without the sermon' *Harvard Business Review* 59(6): 78–90; Nash, L. L. (1989) 'Ethics without the sermon' in Andrews K. R. and David D. K. (eds) *Ethics in Practice* Boston Mass., Harvard Business School: 245; Rest, J. R. (1984) 'The Major Components of Morality' in Kurtines W. M and Gerwitz J. L (eds) *Mortality, Moral Behaviour and Moral Development*, New York, Wiley: 24–38; Robin, D. P., R. E. Reidenbach, et al. (1993) 'Ethical decision making' *Journal of Business Ethics* 74(7): 11–22; Trevino, L. K. (1986) 'Ethical decision making in organizations: A person-situation interactionist model' *Academy of Management Review* 11: 601–617.

<sup>42</sup> Koehn (2005) p. 132–34.

<sup>43</sup> Peters, T. J. (2001) 'Leadership: Sad facts and silver linings' *Harvard Business Review* 79(11): 121.

<sup>44</sup> Kanungo, R.N. & Mendonca, M. (1996) *Ethical dimensions of leadership* Thousand Oaks, CA: Sage Publications.

<sup>45</sup> Burns, J. (1978) *Leadership*: New York, Harper & Rowe; Bass, B. M. (1985) 'Leadership: Good, better, best' *Organizational Dynamics* 13(3): 26–40; Hoover, N. R. (1987) *Transformational and Transactional Leadership: a test of the model*, United States — Kentucky, University of Louisville; Bass, B. M. & B. J. Avolio (1993) 'Transformational leadership and organizational culture' *Public Administration Quarterly* 17(1): 112.

<sup>46</sup> Avolio, B. (1999) *Full Leadership Development: Building the Vital Forces in Organizations* Sage, Thousand Oaks, CA.

<sup>47</sup> Turner, Barling, Epitropaki, Butcher & Milner, (2002) 'Transformational leadership and moral reasoning' *Journal of Applied Psychology* 87(2): 304–311.

However, a word of caution is needed when discussing positive outcomes of transformational leadership. There is some evidence to suggest that both transformational and transactional leadership approaches may be required, since they may yield different and complementary aspects of integrity. A number of authors have also pointed out that transformational leadership styles can at times be a negative influence on the organisational climate and that there are ethical risk implications of transformational leadership, where a leader may 'sometimes behave immorally because they are blinded by their own values.'<sup>49</sup> Some have suggested that the compliance-based<sup>50</sup> influence style associated with transactional leadership behaviour is unethical. Kanungo and Mendonca noted that 'the near destruction of the followers' self-esteem for the benefit of the leader makes the transactional influence process highly offensive to the dignity of people; therefore, it cannot be considered to be an ethical social influence process.'<sup>51</sup>

In a study of corporate ethics officers and senior executives aimed at examining perceived executive ethical leadership,<sup>52</sup> Vera and Crossan showed that 'ethical leadership' requires a transactional component that comprises communication and reward systems to guide ethical behaviour. Sangkar also concluded that the impact of leadership styles on organisational learning showed that both transformational and transactional approaches have valuable contributions to make.<sup>53</sup>

Closely aligned with the notion of transformational leadership is that of charismatic leadership. There seems to be no doubt that some people possess natural abilities to inspire others by means of their personality. However, history tells us that charismatic leaders are not always moral leaders. This negative side of charisma can be ethically damaging to the organisation if the charismatic leader is not him/herself a moral person and if 'the moral literacy of the leader and the essentials of an ethical culture are connected to his/her character and not to his/her charismatic personality.'<sup>54</sup>

Transformational and charismatic leaders can therefore also be unethical if they are motivated by selfishness rather than altruism,<sup>55</sup> or if they use power inappropriately.<sup>56</sup> Scholars now differentiate between socialised (ethical) and personalised (unethical) charismatic leaders<sup>57</sup> and authentic and pseudo-transformational leaders,<sup>58</sup> suggesting that transformational (charismatic) and ethical leadership are not necessarily aligned.

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<sup>48</sup> Sarros, J. C., G. A. Tanewski, et al. (2002) 'Work alienation and organizational leadership' *British Journal of Management* 13(4): 285–304.

<sup>49</sup> Price, T. L. (2003) 'The ethics of authentic transformational leadership' *Leadership Quarterly* 14(1): 67–81.

<sup>50</sup> Kelman, H. C. (1958) 'Compliance, identification, and internalization: Three processes of attitude change' *Journal of Conflict Resolution* 2(1): 51–60.

<sup>51</sup> Kanungo, R.N. & Mendonca, M. (1996) *Ethical dimensions of leadership* Thousand Oaks, CA: Sage Publications, p. 73.

<sup>52</sup> Trevino, L. K., M. Brown, et al. (2003). 'A qualitative investigation of perceived executive ethical leadership: Perceptions from inside and outside the executive suite.' *Human Relations* 56(1): 5.

<sup>53</sup> Vera, D. and M. Crossan (2004). 'Strategic leadership and organizational learning.' *Academy of Management Review* 29(2): 222–240.

<sup>54</sup> Sankar, Y. (2003) 'Character not charisma is the critical measures of leadership excellence' *Journal of Leadership & Organizational Studies* 9(4): 45.

<sup>55</sup> Bass, B. M. (1985) 'Leadership: Good, better, best' *Organizational Dynamics* 13(3): 26–40; Bass, B.M. (1998) *Transformational leadership: Industrial, military, and educational impact*: Mahway, N.J.: Lawrence Erlbaum; Howell, J.M. (1988) 'The Two Faces of Charisma: Socialized and Personalized Leadership in Organizations' in J. Conger & R. Kanungo (Eds.) *Charismatic Leadership: The Illusive Factor in Organizational Effectiveness*. San Francisco: Jossey-Bass, pp. 213–236; Howell, J. M. and Avolio B. J. (1992) 'The Ethics of Charismatic Leadership: Submission or Liberation?' *The Executive* 6(2): 43.

<sup>56</sup> House, R. J. & Aditya. (1997) 'The Social Scientific Study of Leadership: Quo Vadis?' *Journal of Management* 23(3): 409–458.

<sup>57</sup> Howell J. M. & Avolio B. J. (1992) 'The Ethics of Charismatic Leadership: Submission or Liberation?' *The Executive* 6(2): 43.

<sup>58</sup> Bass, B. M. and P. Steidlmeier (1999) 'Ethics, character, and authentic transformational leadership behaviour' *Leadership Quarterly* 10(2): 181–217.

Other work has supported these differing but mutually supportive ethical outcomes, for example: holding employees accountable as a cardinal feature of transactional leadership;<sup>59</sup> the mix of outcomes from apparent transformational approaches which also yields transactional type outcomes;<sup>60</sup> that there is only partial overlap between transformational and ethical leadership;<sup>61</sup> arguments against the bipolarity between transactional and transformational styles;<sup>62</sup> relationships between perceived leadership integrity and transformational leadership using the Perceived Leadership Integrity Scale (PLIS) and the Multi-Factor Leadership Questionnaire (MLQ);<sup>63</sup> and distinction between authentic transformational leadership and inauthentic transformational leadership as one response to perceived concerns regarding the morality of transformational leadership.<sup>64</sup>

### ***Leader Member Exchange***

Leader Member Exchange (LMX) theory as developed by Graen and Novak<sup>65</sup> and others since, also has clear implications for ethical leadership behaviour. This work has included: results that explain such things as the value of higher quality long term relationships;<sup>66</sup> the links between role conflict, role ambiguity and intrinsic task satisfaction;<sup>67</sup> and the impact of constructive resistance by employees on leader responses depending upon the relationship.<sup>68</sup> These dyadic relationship issues are very likely to be predictors of ethical outcomes and conversely ethics may also lead to higher quality dyadic relationships.

While there appear to be only a handful of empirical studies to date which examine these links between ethics, values congruence and LMX,<sup>69</sup> Graen recently drew clear links between LMX and ethical behaviour as regards responding ethically to issues of diversity in the workplace.<sup>70</sup> Other work has brought together the concepts of charismatic leadership theories, LMX and leadership categorisation theories by use of a social identity model seeing the leader as an integral member of the group.<sup>71</sup>

### **Achieving a 'Leading with Integrity' Organisation**

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<sup>59</sup> Gini, A. (1997) 'Moral leadership: An overview' *Journal of Business Ethics*, 16(3): 323–330.

<sup>60</sup> Turner, N., J. Barling, et al. (2002) 'Transformational leadership and moral reasoning' *Journal of Applied Psychology* 87(2): 304–311.

<sup>61</sup> Trevino, L. K., M. Brown, et al. (2003) 'A qualitative investigation of perceived executive ethical leadership: Perceptions from inside and outside the executive suite' *Human Relations* 56(1): 5.

<sup>62</sup> Kark, R., Shamir, B., & Chen, G. (2003) 'The two faces of transformational leadership: empowerment and dependency' *Journal of Applied Psychology* (88)2: 246–255.

<sup>63</sup> Trevino, L. K., M. Brown, et al. (2003); Parry, K. W. and Proctor-Thomson S. B. (2002) 'Perceived integrity of transformational leaders in organisational settings' *Journal of Business Ethics* 35(2): 75.

<sup>64</sup> B. Bass and P. Steidlmeier (1999) 'Ethics, character, and authentic transformational leadership behavior' *The Leadership Quarterly* 10: 181–217 in Price, T. L. (2003) 'The ethics of authentic transformational leadership' *Leadership Quarterly* 14(1): 67–81.

<sup>65</sup> Graen, G. & Novak M. A. (1982) 'The Effects of Leader-Member Exchange and Job Design on Productivity and Satisfaction: Testing a Dual Attachment Model' *Organizational Behavior and Human Performance* 30(1): 109.

<sup>66</sup> Maslyn, J. M. & Uhl-Bien M. (2001) 'Leader-member exchange and its dimensions: Effects of self-effort and other's effort on relationship quality' *Journal of Applied Psychology* 86(4): 697.

<sup>67</sup> Dunegan, K. J., Uhl-Bien, M. et al. (2002) 'LMX and Subordinate Performance: The Moderating Effects of Task Characteristics' *Journal of Business and Psychology* 17(2): 275.

<sup>68</sup> Tepper, B. J., M. Uhl-Bien, et al. (2006) 'Subordinates' Resistance and Managers' Evaluations of Subordinates' Performance' *Journal of Management* 32(2): 185.

<sup>69</sup> For example: Goertzen, B. J. (2003) Role of managers' and direct reports' ethic of virtue on leader-member exchanges United States — Nebraska, The University of Nebraska – Lincoln; Isaac, R. G., L. K. Wilson, & Pitt (2004) 'Value congruence awareness: Part 2. DNA testing sheds light on functionalism' *Journal of Business Ethics* 54(3): 303–315.

<sup>70</sup> Graen, G. B. (2003) 'Dealing with Diversity: Chapter 1. Role Making onto the Starting Work Team Using LMX Leadership: Diversity as an Asset' Safari Business Books Online.

<sup>71</sup> van Knippenberg, D. and M. A. Hogg (2003) 'A social identity model of leadership effectiveness in organizations' *Research in Organizational Behavior* 25: 243–295.

In this third part of the paper we examine what organisations need to be doing to achieve ethical leadership. We ask how would one envisage an organisation with an effective integrity system and what ‘pillars’ (blocks or twigs) would one be seeking to develop and enhance it? The following are suggested as a start point, although not a comprehensive list, they are expanded upon in the conclusions to the paper:

- Ethics as formal Governance item
- An operationalised Code of Ethics
- Awareness Raising, Education and Training
- An ethics advisory service
- An ethics committee
- Rapid responses to dilemmas and breaches
- Whistleblower protection
- Effective data collection and records
- Ethics audits (incl: Self-auditing processes)
- Fraud risk assessments
- Public statements on organisation’s Web Site(s)
- Visible and publicly applied penalties for non-compliance
- Lobbying for legislative and regulatory changes.

It is important to acknowledge that some of the ideas presented here are not new. In 1989, Gandz and Bird outlined a similar set of strategies, calling for eight areas of focus: recruitment, selection, and promotion of individuals; training in ethical decision making; communication of high expected standards; establishment of clear channels of communication; frequent policy reviews; direct control of behaviour; creation of institutions to promote particular moral aims; and the exhibition of model behaviour.<sup>72</sup> At about the same time Longenecker, McKinney and Moore similarly expressed the need for organisations ‘to clarify values during recruitment, selection, and promotion’.<sup>73</sup> Much of this responsibility for, and the opportunity to enhance integrity, now rest with the organisation’s human resource management role.<sup>74</sup> However, there is little empirical evidence that their advice has been heeded or followed to any large degree

Others have given guidance in this respect. For example, Wallington<sup>75</sup> listed the following actions to achieve ethical leadership in an organisation: setting the tone, establishing and enforcing appropriate policies, educating and recruiting those who have already been versed in ethical knowledge, separating duties to avoid conflicts, reward ethical conduct and eliminating ‘undiscussables’ by making it acceptable for employees to question what happens. Further, Zaccaro and Banks in 2004 analysed three gaps between leadership research and HR practice: the value of organisational visions; change management skills for HR managers; and the utility of training and development programs that are aimed at organisational vision and change management skills.<sup>76</sup>

One notable example of efforts to integrate ethical leadership principles throughout an organisation is the work carried out by the Australian Public Service Commission (APSC) since about 2002. There is no doubt that APSC’s package of mutually supportive strategies: Embedding the APS Values<sup>77</sup>, Integrated Leadership System<sup>78</sup> and Senior Executive Leader Capability Framework<sup>79</sup> have set ground-breaking best practice standards in this area. They incorporate a firm values-based management approach. In particular these strategies spell out clear ethical guidelines, including roles for executive to senior executive levels of

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<sup>72</sup> Gandz, J. and F. G. Bird (1989) ‘Designing Ethical Organizations’ *Business Quarterly* 54(2): 108–112.

<sup>73</sup> Longenecker, J. G., J. A. McKinney & Moore (1989) ‘The Generation Gap In Business Ethics’ *Business Horizons* 32(5): 9–15.

<sup>74</sup> Hobel, J. (2004) ‘An ethical boost for staff morale?’ *Canadian HR Reporter* 17(6): 14; Wimbush J.C. (2005) ‘Spotlight on human resource management Business Horizons’ 48: 463–467.

<sup>75</sup> Wallington, P. (2003) ‘Honestly?! Ethical behavior isn’t easy, just essential. Here’s how to run an honest organization and be an ethical leader’ *CIO* 16(11): 1.

11. <sup>76</sup> Zaccaro, S. J. and D. Banks (2004). ‘Leader visioning and adaptability: Bridging the gap between research and practice on developing the ability to manage change.’ *Human Resource Management* 43(4): 367–380.

<sup>77</sup> APSCa, (2006) *Embedding APS Values* <http://www.apsc.gov.au/values/values.htm>

<sup>78</sup> APSCb, (2006) *Integrated Leadership System* <http://www.apsc.gov.au/ils/index.html>

<sup>79</sup> APSCc, (2006) *Senior Executive Capability Framework* <http://www.apsc.gov.au/selc/index.html>

management and encourage a common language across all agencies in relation to executive leadership. Having said this, it is early days yet to be sure of its longer term impacts, since no empirical work has yet been done on these recent Australian public sector developments.

Below we outline some of the strategies we see as necessary to ensure that organisations attract and recruit ethical people and then deal with them in ways which will sustain and where enhance the organisation's integrity.

### ***Pre-employment Ethics Education***

People entering the workforce for the first time are the building blocks for future organisational integrity – our leaders of tomorrow. While it is not the primary role of employing organisations to concern themselves with pre-employment agendas, organisations can nevertheless have an indirect influence by pressing for their own requirements when dealing with job seekers. This has the potential to influence curricula and its ethics content at the secondary school and college level. Organisations can directly brief educationalists at the secondary school level to highlight what they expect in terms of preparation of the young prior to them seeking employment. There appears to be evidence to support the usefulness and efficacy of ethics related content in secondary and college educational experiences, as discussed below.

In the Information Technology (IT) area at least this is already happening. Dill studied ethics-related issues in IT use, examining secondary school level content in the US and comparing this with similar content across 21 other countries, noting some 46 such IT ethics education policies.<sup>80</sup> Another study in the IT area tested the ethical reasoning of secondary school students in respect of 16 hypothetical scenarios related to computer and IT ethics. While the results were varied for the different dilemmas, these kinds of empirical studies at secondary student levels are potentially very useful in informing educationalists of any ethical gaps in course content and/or the absorption of ethical messages by their students.<sup>81</sup>

In a study of 190 school students which examined adolescent moral reasoning, results suggested 'that moral education interventions must encourage youth to explore their views that much of their behaviour is only their own business'.<sup>82</sup> Hyslop-Margison expressed the need for a return to an Aristotelian approach to training people through a return to liberal education which can train moral reasoning.<sup>83</sup> Other literature has examined various issues associated with the issue of ethical development at this pre-employment stage which have the potential to encourage changes to second school curricula aimed at bringing about greater ethical awareness, before young people enter the workforce. These have included:

- Zeidler, Walker, Ackett and Simmons, 2002: in the area of school students' reaction to anomalous socio-scientific data;<sup>84</sup>
- Infinito 2003: Teaching students to create an ethical self awareness utilising Foucault's model of moral development;<sup>85</sup>
- Kirman, 2003: the importance of geographic ethics if students are expected to be stewards of the earth and responsible citizens of the planet;<sup>86</sup>

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<sup>80</sup> Dill, B. J. and R. E. Anderson (2003) 'Ethics-related technology policies in schools' *Social Science Computer Review* 21(3): 326.

<sup>81</sup> Hamed, G. (2003) *Examining high-school students' views on computer and information ethics United States — Kansas*, Kansas State University.

<sup>82</sup> Kuther, T. L. and A. Higgins-D'alessandro (2000) 'Bridging the Gap Between Moral Reasoning and Adolescent Engagement in Risky Behavior' *Journal Of Adolescence* 23(4): 409–422.

<sup>83</sup> Hyslop-Margison, E. J. (2002) 'Liberalizing career education: an Aristotelian approach' *Alberta Journal of Educational Research* 48(4).

<sup>84</sup> Zeidler, D. L., K. A. Walker, et al. (2002) 'Tangled up in views: Beliefs in the nature of science and responses to socioscientific dilemmas' *Science Education* 86(3): 343.

<sup>85</sup> Infinito, J. (2003) 'Jane Elliot meets Foucault: The formation of ethical identities in the classroom' *Journal of Moral Education* 32(1): 67.

<sup>86</sup> Kirman, J. M. (2003) 'Transformative geography: Ethics and action in elementary and secondary geography education' *The Journal of Geography* 102(3): 93.

- Maulden, Bentley, O'Dwyer and Houston 2004: on the deficits among the pre-employed from urban schools in work attitude, ethics, and competencies in children were leading to an 'under-prepared workforce';<sup>87</sup>
- Norquist 2005: in the area of consumer behaviour, stressing the place a high value of teaching decision-making processes to junior high school students as regards and the concept of opportunity cost;<sup>88</sup>
- Underleider 2004: A Canadian study examining the importance placed by parents on training youth for life preparedness and ethics.<sup>89</sup>

If strategies can be adopted which focus sharply on school children in terms of ethical values and reasoning, this may lay a better ethical foundation for their entry into higher education and/or the workforce.

### ***Recruiting Ethical People***

'Can you interview for Integrity?' asked William Byham<sup>90</sup> in a recent article about finding ethical employees, answering that question by suggesting that you certainly can take steps in that direction. Organisations need to devise recruitment strategies and techniques that can carefully assesses potential employees in terms of their ethical stance and propensity for ethical (and unethical) behaviour. At the entry level, finding the right people to join the organisation in the first place can be a challenge. At the higher levels, when selecting people from outside for senior roles, all the more care needs to be taken to not make serious selection mistakes by choosing people whose ethics are questionable. Very few recruitment processes actually include ethics as a specific selection criterion. Recruitment strategies need to carefully examine candidates with a range of techniques to test, as near as possible to real life experiences, their values and likely reactions to morally hazardous situations.

The recruitment literature deals with this issue at some length. Various authors have stressed the importance of careful hiring by taking account of ethics and likely reactions to ethical challenges.<sup>91</sup> In the Post-Enron aftermath, and with the demise of the Arthur Andersen accountancy firm, it has been suggested that accounting firms should be focusing their recruitment priority on getting accountants who have cognitive styles with higher levels of ethical reasoning.<sup>92</sup>

Kidder suggests that presenting prospective employees with a theoretical ethical dilemma to determine their level of moral reasoning may be an effective recruitment strategy for ascertaining the ethical decision making processes of the interviewee.<sup>93</sup> Byham calls for the reintroduction of '...doing proper background and reference checks, practices which many organizations let slip for a couple of decades but which are now resurrecting.'<sup>94</sup> He suggests that interviewers must ask the right questions as the answers to such questions will indicate whether there is an ethical 'fit' between the interviewee and the organisation. The key to effectively interviewing for integrity is seeking multiple examples of behaviours and asking probing questions that reveal the thinking behind the behaviour described'.<sup>95</sup>

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<sup>87</sup> Maulden, B., K. Bentley, et al. (2004) 'Secondary Education and the Under-Prepared Workforce: Is a Poor Work Ethic Being Taught?' *Business Perspectives* 16(2): 18.

<sup>88</sup> Norquist, K. (2005) 'Teaching Ethics in Junior High' *Journal of Family and Consumer Sciences* 97(3): 63

<sup>89</sup> Ungerleider, C. (2004) 'Changing expectations, changing schools: the evolving concept of the Good School' *Education Canada* 44(3): 18.

<sup>90</sup> Byham, W. C. (2004) 'Can You Interview for Integrity?' *Across the Board* 41(2): 34.

<sup>91</sup> For example see Lantos, G. P. (1999) 'Motivating moral corporate behaviour' *Journal of Consumer Marketing* 16(3): 222-233.

<sup>92</sup> Abdolmohammadi, M. J., W. J. Read, & Scarborough (2003) 'Does selection-socialization help to explain accountants' weak ethical reasoning?' *Journal of Business Ethics* 42(1): 71-81.

<sup>93</sup> Kidder, D. L. (2005) 'Is it 'who I am', 'what I can get away with', or 'what you've done to me'? A multi-theory examination of employee misconduct' *Journal of Business Ethics* 57(4): 389-398.

<sup>94</sup> Byham, W. C. (2004) 'Can You Interview for Integrity?' *Across the Board* 41(2): 34.

<sup>95</sup> Birchfield, R. (2004). 'The Management Interview; Jim Syme – On boardroom ethics and integrity' *New Zealand Management*: 32-34.

Similarly, Holloway suggests establishing an organisation's recruitment strategy based on clearly defined values and principles and outlining these clearly to applicants, to reach a stage where only those like-minded people wanting to work for an ethical organisation will apply.<sup>96</sup> Hurst agrees, saying: 'Business ethics at the employee level is best served by solid recruiting and interviewing practices' and that the key is 'to be clear in policy statements and make certain that employees know that the company is 100% committed to ethical operation.'<sup>97</sup> Waite concludes: 'the employment of people with integrity, who have the necessary skills and competence to do the job, goes to the very fabric of a successful business enterprise. If the employee screening process is to be effective, it needs to be integrated into the recruitment process.'<sup>98</sup> Moreover, a cross-cultural dimension may impact upon recruitment processes in international operations. Negative ethical behaviours of expatriate personnel is often brought about by ethical mismatches, so selecting expatriate managers with high emotional intelligence and carrying out pre-departure training in ethical reasoning can be a clear guard against such unsatisfactory outcomes.<sup>99</sup>

A body of other recent research informs the debate about ethical recruitment practices, for example, Kiger suggests that we can learn a lot about ethical selection practices by examining methods used by the armed forces.<sup>100</sup> Hylton has suggested the use of special tools, such as the Multi-Factor Leadership Questionnaire (MLQ) as a tool that can be used for selecting the right leaders.<sup>101</sup> It is particularly important to recognise the important role that human resource management can play in encouraging ethical behaviour throughout an organisation. Effective strategic HR practices recognise the role that integrity plays in effective leadership, however there remains an absence of evidence that organisations are actively seeking to recruit HR staff who recognise the roles that values and ethics play in an organisation.<sup>102</sup>

It is not employers alone but also employees who can help find a good match of values. Maher reports of a growing trend in which prospective employees are responding positively to companies which appear to have high ethical standards. He reports one company, United Technologies, saying that their well publicised dedication to high ethical standards 'is a great recruiting tool'.<sup>103</sup> Another company, Fonterra, reports that they seek four clear attributes in every new leader they seek to hire, these being: a transformational leadership style, functional excellence, teamwork and 'unquestioning integrity, at management level in particular, as a vital attribute'.<sup>104</sup>

### ***Training and developing Ethical Leaders***

Having recruited the right people into the organisation, through an ethics emphasis at recruitment and selection stage, the process does not stop there. An ongoing and focused ethical leadership training strategy can be a major boost to an organisation's integrity. Such ongoing training should include strong ethical content, from orientation through to executive development, with special training for those in positions of high ethical risk (such as purchasing, contracting, finance etc) and in professional areas that present special dilemmas and needs (for example: marketing, nursing, police, uniformed services).

There is good evidence that such training is effective and that it is not a cost but an investment for any organisation wishing to achieve a Leading with Integrity culture. One survey of eleven best practice

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<sup>96</sup> Holloway, J. (2004) 'Recruiting on principle: Selling a company's values' *Canadian HR Reporter* 17(20): 7.

<sup>97</sup> Hurst, J. (2004) 'Ethics, Privacy And Discipline' *Supply House Times* 47(6): 146.

<sup>98</sup> Waite, B. (2005) 'The Lying Game' *Accountancy Age*: 22.

<sup>99</sup> Jassawalla, A., C. Truglia & Garvey (2004) 'Cross-cultural conflict and expatriate manager adjustment: An exploratory study' *Management Decision* 42(7/8): 837.

<sup>100</sup> Kiger, P. J. (2005) 'Lessons for Private-Sector Employers' *Workforce Management* 84(11): 28.

<sup>101</sup> Hylton, P. E. (2005) *Leadership and Followership: Selecting, Hiring, and Promoting the Right Leader United States* — Minnesota, Capella University.

<sup>102</sup> Miller, G. (2004) 'Leadership and Integrity: How to ensure it exists in your organization' *The Canadian Manager* 29(4): 15–17; Winstanley, D., J. Woodall, et al. (1996) 'Business ethics and human resource management – Themes and issues' *Personnel Review* 25(6): 5; Winstanley, D. and J. Woodall, (Eds) (2000) *Ethical Issues in Contemporary Human Resource Management*: New York, St Martin's Press.

<sup>103</sup> Maher, B. K. (2002) 'Career Journal: Wanted: Ethical Employer — Job Hunters, Seeking to Avoid An Enron or an Andersen, Find It Isn't Always Easy' *Wall Street Journal*: B.1.

<sup>104</sup> Saville, J. (2005) 'Upfront: Milking the talent market.' *New Zealand Management*: 11.

companies in the financial world has confirmed that by using the proper training tools, it is possible to develop your own ethical leaders, and retain your best people.<sup>105</sup> May, Chan, Hodges and Avolio have also proposed a blueprint for fostering sustainable authentic moral behaviour in leaders, through using exposure to ethical dilemmas as a training method over time, to establish in leaders a deep commitment to ethical responses to such dilemmas.<sup>106</sup>

Based upon this examination of the literature and on one of the author's experience in the field, our suggested ethical leadership training program for senior members of an organisation should include the following:

- An introduction to ethics issues and the scope of ethical considerations, as these apply to their particular organisation or profession;
- Ethics issues that arise within the specific industry-wide context and, if relevant, internationally;
- The various roles of CEOs, senior managers, middle managers and line supervisors in dealing with ethics (advising staff, setting examples, being vigilant regarding potential ethical issues etc.);
- Ethical issues in the provision of particular products and services to customers and clients (eg: marketing, supply, quality etc);
- Ethical decision making methods to use in resolving ethical dilemmas;
- The ethics implications arising within various management systems, e.g. impact on areas such as financial management, property and assets management, HRM, purchasing, sales, contracts etc. (especially where these are devolved);
- Ethical self-assessment tools and techniques for senior managers;
- The right way to approach instances of alleged improper conduct (e.g. policy and investigation issues);
- Legal issues related to ethics relevant to the industry, organisation or profession; and
- Where to seek further advice or consultation.

If organisations exposed all senior people to this type of training and development, it would very likely enhance their self-confidence in confronting morally hazardous situations, their competence in handling ethical dilemmas, as well as enhancing their ability to mentor others to do the same.

### ***Mentoring Up-and-coming Leaders***

The pro-active mentoring of up-and-coming leaders by partnering them with more senior leaders who have proven their integrity, ethical qualities and skills, is another useful investment in Leading with Integrity. There is convincing evidence of the use of mentoring for this purpose.

Lantos stressed: 'executives should mentor peers and subordinates by their own words and (most important) deeds. They should lead by example, not just 'talking the talk' but 'walking the walk'. One of the most important influences on an individual and for creating a moral corporate culture is the behaviour of superiors and peers.'<sup>107</sup> Others have confirmed this view and even argued that such mentoring works two ways to strengthen the resolve of the mentor too and build a culture based on mutually shared values. These relationships often result in a long-term commitment from the new employee.<sup>108</sup> Such results have also been borne out in the civil engineering field where Nakano suggests that the use of mentoring can foster improved ethical behaviour and re-establish trust.<sup>109</sup> Others have stressed the fact that open communication, and even whistleblowing by younger employees against wrongdoing, can only be fostered by a strong mentoring in ethics by their superiors.<sup>110</sup> Allio, in discussing the need for competent and ethical leaders, has concluded that '[f]or those charged with the responsibility of developing leaders, the three necessary steps are to select the right candidates, create learning challenges, and provide mentoring'.<sup>111</sup>

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<sup>105</sup> Barlas, S., Thompson L., et al. (2003) 'Developing ethical financial leaders' *Strategic Finance* 85(4): 19.

<sup>106</sup> May, D. R., Chan A. Y. L., et al. (2003) 'Developing the moral component of authentic leadership' *Organizational Dynamics* 32(3): 247.

<sup>107</sup> Lantos, G. P. (1999) 'Motivating moral corporate behaviour' *Journal of Consumer Marketing* 16(3): 222-233.

<sup>108</sup> Lavery, C. A., Lindberg D. L., & Razaki (2003) 'Voice of experience' *Today's CPA* 30(5): 16.

<sup>109</sup> Nakano, V. M. (2003) 'Ethics and civil engineering: Past, present, and future' *Civil Engineering* 73(2): 84.

<sup>110</sup> Seglin, J. L. (2003) 'Wanted: Whistle-Blower Managers' *New York Times*: 3.4.

<sup>111</sup> Allio, R. J. (2005) 'Leadership development: teaching versus learning' *Management Decision* 43(7/8): 1071.

## ***Sponsoring Business Education***

Since the recent corporate scandals of Enron, WorldCom and the like, there has rightly been considerable pressure on business schools to substantially reinforce their contribution in the teaching of ethics. Some studies have reported the fact that post-secondary education systems are generally inadequate in this regard. Milton-Smith reported the slow and uneven progress in business ethics education across universities, professional bodies and industry association. Despite increasing numbers of educational programs established by ethicists, 'narrow vocationalism still takes precedence over personal values in the business and management curriculum.'<sup>112</sup> For example regarding entrepreneurship studies in Canada, Kyleen noted an inadequate treatment of ethics in the curriculum.<sup>113</sup>

One result of these concerns regarding ethics in business is a widespread reappraisal of business education. Some of this is being driven by the fact that to be an accredited business school with either the US-based 'Association to Advance Collegiate Schools of Business (AACSB, 2006)' or the European Foundation for Management Development's 'European Quality Improvement System (EQUIS, 2006)', it is necessary to have a strong ethical content which is firmly embedded and suitably assessed. We suggest that this may lead to a better overall quality of graduate in terms of their awareness of and focus on integrity issues. Perhaps organisations should consider only sponsoring students for further study in management and leadership if they are attending those business schools which have a strong ethical content in their educational programs.

This is supported in the literature. Swann reports that the Accreditation Board for Engineering and Technology in British Columbia now requires ethical content in industrial engineering programs to receive their nationally recognised accreditation.<sup>114</sup> Kidwell suggests the adoption of student honour codes as a form of assessment to underline the importance of ethical professional conduct.<sup>115</sup>

## ***Performance Management***

Performance management (or appraisal) of staff is potentially a key tool in promoting and rewarding ethical behaviour, although not without its own ethical difficulties.<sup>116</sup> For example, a study in 2003 into ethical dilemmas associated with performance appraisals found unethical behaviour partly explained lower than expected effectiveness of the performance measurement procedures.<sup>117</sup> Performance management schemes that include a substantial measure of ethical measurement and feedback can assist organisations to plan for the advancement of the right people into positions involving higher levels of trust. There have been calls for its use in this domain by several authors.<sup>118</sup> Most recently, Selvarajan observed that performance appraisal systems had 'exclusively concentrated on business performance to the exclusion of ethical

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<sup>112</sup> Milton-Smith, J. (1997) 'Business ethics in Australia and New Zealand' *Journal of Business Ethics* 16(14): 1485–1497.

<sup>113</sup> Myrah, K. (2003) *A study of public post-secondary entrepreneurship education in British Columbia: The possibilities and challenges of an integrated approach*: Canada, The University of British Columbia.

<sup>114</sup> Swann, J. (2004) 'Teaching Ethics: It's the Right Thing to Do' *ORMS Today* 31(3): 10.

See also, Sims, R. R. and Felton, Jr, E. L. (2006) 'Designing and Delivering Business Ethics Teaching and Learning' *Journal of Business Ethics* 63(3): 297.

12. <sup>115</sup> Kidwell, L. A. (2001) 'Student honor codes as a tool for teaching professional ethics' *Journal of Business Ethics* 29(1–2): 45–49.

<sup>116</sup> Winstanley, D., J. Woodall, et al. (1996) 'Business ethics and human resource management – Themes and issues' *Personnel Review* 25(6): 5.

<sup>117</sup> Kerssens-van Drongelen I.C, Fisscher O.A.M (2003) 'Ethical dilemmas in performance measurement' *Journal of Business Ethics* 45(1): p. 51.

13. <sup>118</sup> See for example, Weaver, Trevino & Cochran (1999) 'Integrated and Decoupled Corporate Social Performance: Management Commitments, External Pressures, and Corporate Ethics Practices' 42(5) *The Academy of Management Journal* 539–552

dimensions of job performance'.<sup>119</sup> Selvarajan suggests that ethical elements need to be developed within performance appraisals and proposes a cognitive process model for this purpose.

These strong links between performance appraisal processes and the relationship between leaders and their charges were examined in a study by Weaver, Trevino and Agle.<sup>120</sup> They elicited four behavioural issues related to influencing others: everyday interpersonal behaviours, high ethical expectations for oneself, high ethical expectations for others and fairness in dealing with others. The authors stressed that these issues all have 'important implications for fostering ethics in organizations, especially concerning questions of performance appraisal, promotion into leadership positions, and the responsibility of all managers — not just high level executives — to model ethical behaviour.'

### ***Rewards, Promotion and Advancement***

The literature is sparse on the issue of taking ethics and integrity into account when selecting people for promotion. There is some evidence of ethics being considered in promotion selection in the psychology profession.<sup>121</sup> There is also some evidence of considerations of 'character' in promotion decisions in the public sector, but even the more recent work in the promotion selection domain reveals that there is work to do. Zauderer, in examining the US Office of Personnel Management's Executive Core Competencies (ECQ), points out that 'this would be strengthened substantially if 'high character' were added to the list of criteria'.<sup>122</sup> A strong focus on ethics in an organisation's promotion selection systems is required, which really does examine propensity towards ethical (and unethical) behaviour. Certainly in the past this has been one area that has been lacking in emphasis. Ponemon,<sup>123</sup> using the field of accounting, highlighted that promotion decisions were often based on the selectors trying to clone their own ethical reasoning styles, such that there was little likelihood that higher levels of ethical reasoning would emerge. The development of appropriate rewards systems to address these needs is seen as primary a responsibility of the Human Resource Management area.<sup>124</sup>

While promotion is usually the most commonly sought after and used reward, there is room for a greater focus on alternative rewards for those who display strong ethical behaviour in organisations. Reward systems are required that yield worthy recognition for those who excel at ethical leadership together with punitive processes that deal publicly and severely with breaches of the ethical leadership values promoted within an organisation. Rewards systems are an effective tool for reinforcing ethics programs, particularly when integrated with performance appraisals.<sup>125</sup> Ethical behaviour is influenced by encouragement and reward techniques, so the designers of incentive programs need to be fully aware of the unethical behaviours that can result from poorly-based reward systems.<sup>126</sup>

### **Conclusions and Recommendations**

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<sup>119</sup> Selvarajan, T. T. (2006) 'A Cognitive Processing Model for Assessing Ethical Behavior of Employees' *Journal of American Academy of Business* 9(1): 86–92.

<sup>120</sup> Weaver, G. R., Trevino, L. K. & Agle (2005) 'Somebody I Look Up To: Ethical Role Models in Organizations' *Organizational Dynamics* 34(4): 313.

<sup>121</sup> Hough, L. M. and F. L. Oswald (2000) 'Personnel selection: looking toward the future — remembering the past' *Annual Review of Psychology* 51: 631.

<sup>122</sup> Zauderer, D. G. (2005) 'Leading with Character' *Public Manager* 34(1): 44.

<sup>123</sup> Ponemon, L. A. (1992) 'Ethical Reasoning and Selection Socialization in Accounting' *Accounting, Organizations and Society* 17(3,4): 239.

<sup>124</sup> Pernick, R. (2001) 'Creating a leadership development program: Nine essential tasks' *Public Personnel Management* 30(4): 429.

<sup>125</sup> Weaver, Trevino & Cochran (1999) 'Integrated and Decoupled Corporate Social Performance: Management Commitments, External Pressures, and Corporate Ethics Practices' 42(5) *The Academy of Management Journal* 539–552, p. 541.

<sup>126</sup> Vallone Mitchell, C, Schaeffer P. M. & Nelson K A (2005) 'Rewarding Ethical Behavior' *Workspan* 48(7): 36–39.

This paper has attempted to present a summary of the many issues relevant to the achievement of an organisation's Leading with Integrity objectives. While there is a reasonable level of academic interest in this area, we found little evidence that the various recommendations made by researchers have been empirically followed up and measured in organisational settings. We are therefore left with a dual agenda: a set of practical recommendations for organisational practitioners and an extensive research agenda for academics to pursue.

The organisational task, apart from addressing the broader questions we asked in Part 1 of this paper, is also to examine the presence and effectiveness of the various possible supports ('pillars', blocks, twigs) of an integrity system within their own organisations. In so doing, organisations should be asking questions about the effectiveness of their integrity systems, such as:

- Is organisational ethics a formal governance item, which is considered as a critical element at every turn?
- Is there a code of ethics which is regularly reviewed and adhered to by all?
- Is there an effective and ongoing strategy for awareness on matters of integrity?
- Is there a mandatory effective ethics education and training strategy in place?
- Is there an ethics advisory service staffed with capable and accessible contact officers of unquestionable personal integrity?
- Has the formation of an ethics committee been considered as an integral part of the integrity strategy?
- Does the organisation have an open communication culture which fosters a positive ethical climate?
- Is there a whistleblower policy and protection mechanism in place which is widely understood?
- Is there a regularly updated and analysed data base of ethical issues which arise, to provide guidance over time?
- Is there an exemplary process of corporate governance, especially (but not only) as regards financial management?
- Is there a risk assessment strategy in place, particularly as regards the avoidance of fraud and corruption?
- Are there rapid responses to ethical breaches and are these met with firm and visible penalties?
- Does the organisation make public statements about its quest to be an organisation in which leading with integrity is a cherished objective?

While some authors have made similar calls for such comprehensive strategies before,<sup>127</sup> it remains the role of those who seek to lead with integrity to constantly ask these questions and to provide the right answers. Just as in the case of national integrity systems, we can ask the same questions of intra-organisational integrity systems, with the above supports in mind, by asking whether the system has the capacity and coherence to deliver the required consequences.

In order to further develop the knowledge base in this area we suggest that the following research questions might be pursued:

- How much emphasis is being given to ethical strengths in the selection criteria used to select our leaders?
- What are the values held by leaders on matters of integrity and ethical leadership?
- How are the values held by leaders translated into actual on-the-job behaviour?
- How much training and education of leaders is actually being delivered in the various skills outlined in this paper (e.g. ethical decision making in morally hazardous situations) and how effective is it?
- How well are reward systems designed to elicit appropriate positive outcomes of ethical leaders?
- How well do advancement and promotion evaluate the specific values and skills required for higher levels of ethical leadership?
- How effective are leaders at providing ethical leadership, building ethical climates and ensuring compliance with ethical standards?

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<sup>127</sup> For example: McDonald G.M., Zepp R. A. (1990) 'What Should be Done? A Practical Approach to Business Ethics' *Management Decision* 28(1): 9-14; Brickley J.A., Smith C.W. & Zimmerman J.L. (2003) *Managerial Economics and Organizational Architecture* (3rd edition): McGraw-Hill College.

- How are leaders seen by their followers as regards their ethical leadership, ethical decision-making and as role models of integrity?
- To what extent are CEOs at large having a direct positive impact on ethical leadership behaviour and integrity in their organisations?
- How are CEOs viewed by managers and employees in terms of their global leadership of the ethics agenda of their organisations and their impacts on on ethical climate and integrity?
- How do leaders assess themselves against their peers as regards their own ethical leadership?

At the international level we might also investigate questions such as:

- How do leaders compare cross-nationally in terms of ethical leadership and integrity?
- What external factors drive or support an ethical climate in organisations and are there cultural bases which affect positively or adversely the likelihood that leaders will act with integrity?
- In the quest to foster the creation of the human capital of integrity, why do strategies seem to work in some settings, but not in others?

To conclude, it appears that there is room for further investigation of ethics-related activities in organisations and for further research, particularly empirical work to explore the effectiveness of such strategies in practice. We commend to all, practitioners and academicians alike, this important quest for 'Leading-with-Integrity'.

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