

Role of Values, Ethics and Leadership in Organizational Development

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Abstract:

This paper gives a brief insight on what are values and ethics especially in business context . It helps us to understand the key role it plays in today's organizations growth and development. It highlights the significant role played by the leaders in creating an ethical environment in business organization. It also seeks to analyze the basic determinants that ensure the role of leaders in establishing the values and ethics in the organizations. To succeed in the 21st century, organizations need to make ethics a priority and the leaders need to play a vital role in establishing the same. It is the prime responsibility of the leaders to align work ethics with the organization's mission, vision, goals, values and strategies.

Introduction:

In today's world there is a mad race to acquire more and more mostly by short cut means. In the process of acquiring more and more various selfish and irresponsible actions are undertaken by the organizations which are not acceptable by society. This raises the question of values and ethics in the society or organization.

Ethics is a philosophical term originating from Greek word “ethos” meaning custom or character. It is concerned with describing and prescribing moral requirements and behaviors, which suggests that there are acceptable and unacceptable ways of behaving that serve as a function of philosophical principles (Minkes, Small,& Chatterjee, 1999)^[1]. Ethical behavior is defined as behavior which is morally accepted as “good” and “right” as opposed to “bad” or “wrong” in a given situation (Sims, 1992)^[2].

Thus, values and ethics in simple words mean principles or code of conduct that governs our actions and decisions. When applied to business organizations it refers to the principles, procedures and standards of business transactions or operations. Business ethics (also known as corporate ethics) is a form of applied ethics or professional ethics, that examines ethical principles and moral or ethical problems that can arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organization. Values determines what is right and what is wrong and doing what is right or wrong is what we mean by ethics. To behave ethically is to behave in a manner consistent with what is right .

Today's world is highly competitive. Competition breeds enmity and this enmity can be felt in the way how business operations are carried out. Big business houses tend to create monopoly and crush small operators. In such a scenario certain standards are required to govern organizations to carry out their business operations. These standards are known as business ethics. Therefore, being ethical is about doing fair, thinking about welfare of others and thinking about consequences of one's actions.

Role of values and ethics

"A company's ethical behaviour is the mirror image of its culture, a shared set of values and guiding principles deeply ingrained throughout the organization and the ethical behaviour and culture become part of the definition of corporate identity. (D'Amato, Henderson & Florence 2009).

Workplace ethics helps in creating a positive and congenial environment necessary for the growth and development of the organization. Policies like open door policy, anti discriminatory policies, fool proof appraisal system etc. leads to happy and contented employees who enjoy work .It reduces absenteeism and reduces labour turnover. It also breeds loyalty and attachment towards the organization. It also improves the

morale and motivation of the employees and thus increases the overall productivity and efficiency of the organization.

Having a loyal customer base is fundamental to long-range business success because serving an existing customer doesn't involve marketing cost, as does acquiring a new one. Ethical practices such as fair and honest advertising, selling and good after sales service creates credibility and a loyal customer base. An organization driven by values and ethics breeds unity in the organization. It brings the decision makers and the employees on a common platform and thus helps in creating greater and better understanding between decision makers and the employees.

Organizations that develop ethical code of conduct have reduced financial liabilities. An ethical organization has a good brand image and greater trust and confidence in the society. Any organization which has public trust and good image will automatically fetch more customers and hence better sales and revenues in the long run. Secondly an ethical organization needs to spend meager or no money on lawsuits.

Leaders and employees adhering to a code of conduct create an ethical organization culture conducive to one and all. Employees exhibiting the ethical code of conduct should be rewarded and promoted. It also improves the decision making process. All decisions are driven by values and ethics thus contribute towards long-term gains.

Ethics in business allows for healthy competitions. It is common to find two or more companies that offer similar services and goods. A company characterized with ethical behavior will not engage in malpractices such as spreading false and misleading information about the other company or lowering their prices.

Modern society is transforming with great pace. Technological innovations are taking place at such a rapid pace that by the time law comes up with a regulation we have a newer technology with new threats replacing the older one. In such a situation lawyers and public interest litigations may not help but ethics can. Values and ethics help in safeguarding the interest of the society.

Thus, to succeed in today's modern world, organizations need to understand the importance of values and ethics and make ethics a priority.

Leadership and business ethics

Leadership and ethics go hand in hand. Leaders are the primary influence on ethical conduct in an organization (Hitt, 1990; Jansen & Von Glinow, 1985)^[4] and are responsible for the norms and codes of conduct that guide employees' behaviour (Bennis & Nanus, 1985; Cyert, 1990)^[5].

It is the prime responsibility of the leaders to align work ethics with its mission, vision, values, strategies and goals. To create an organizational culture that promotes ethical conduct and personal responsibility leaders need to serve as a role model for others in the organization. Leaders are expected to make it clear through their words and actions that ethics is a priority. Words and actions of the leaders ought to be in consonance to focus the practices of ethical expectations. An organization's moral health depends upon the standards and the example of the chief executive (Kelly, 1990)^[6]. According to Hitt senior leadership has two key responsibilities: 1) to ensure that ethical decisions were made; 2) to develop an organizational climate in which ethical conduct was fostered (Hitt, 1990)^[4]

An ethical leader should possess the qualities of being humble, honest, straight forward, responsible, concerned towards greater good over self interest, encouraging and motivating its fellow members etc. He/ she should be able to create an environment where sincere and open discussions can take place and thus greater coordination and harmony among the team members can be achieved. They should constantly motivate and encourage the employees and provide a sense of direction to employees.

Ethical conduct at all levels are essential for the creating an ethical business environment. More than competence, experience, intelligence and drive, people at all levels require ethical values.

Today's leaders must resist the powerful temptation of self-interest and must be motivated by broader values and principles based on a morally established duty owed and a fiduciary obligation' (Carlopa, 2002 in Caldwell, Hayes & Long, 2010: 497)^[7]. The recent corporate scandals which demonstrated the lack of ethical conduct by Chief Executive Officers (CEOs) and other top leaders was an urgent call for exactly this type of

leadership. 'The unethical actions of leaders caused the demise of some of the world's largest and most successful companies and in so doing demonstrated the enormous impact of leaders on their organizations through both their direct actions and by creating a climate that sanctioned ethically questionable practices' (Grojean, Resick, Dickson & Smith, 2004: 224)^[8]. As such, leaders' actions have a great impact on the organization culture.

Mayer (2011)^[9] proposes three key components of the ethical environment that work together to promote ethical behaviour: ethical leadership, ethical practices and an ethical climate. Ethical leaders set the tone for how employees behave in organisations by conducting themselves in a moral manner, and by taking decisions that are fair and in the best interest of their employees and other stakeholders, a view shared by Granger (2011)^[10], and Robbins and Judge (2009). Robbins and Judge (2009)^[11] include the importance of communicating ethical expectations, over and above having the necessary policies and codes. Furthermore, a key finding of the 2005 National Business Ethics Survey, conducted by the Ethics Resource Centre, was that an ethics communication strategy was not enough to create desired outcomes and that employees needed to see their superiors and peers demonstrate ethical behaviour in the work they do and the decisions they take (Seligson & Choi, 2006: 2) ^[14] Leadership and business ethics are closely related to each other. It is fundamental to the ethical conduct within the organization

Given below are the real world examples that clearly shows that there is close link between leadership and ethics.

Satyam Computers, a global IT company, was defamed in a notorious list of Companies. Satyam's CEO, Ramalinga Raju, accepted his role in a broad accounting impropriety that had overstated the company's net revenue and profit. Mr. Raju claimed that he overstated assets on Satyam's balance sheet by \$1.47 billion. Nearly \$1.04 billion in bank loans and cash that the company claimed to own was non-existent. Satyam also underreported liabilities on its balance sheet.

"The Satyam scandal is a classic case of negligence of fiduciary duties, total collapse of ethical standards, and a lack of corporate social responsibility. It is human greed and desire that led to fraud. This type of behavior can be traced to: greed overshadowing the responsibility to meet fiduciary duties; fierce competition and the need to impress stakeholders especially investors, analysts, shareholders, and the stock market; low ethical and moral standards by top management; and, greater emphasis on short term performance".(M. Damodaran)^[12]

The unethical behaviour shown by Mr.Ramalingam not only ruined the company but had great impact on the IT industry and the country itself.

Another example of this kind is the Enron scandal.

The scandal of Enron has been the largest corporate scandal in history. Enron Corporation is an energy trading, natural gas, and electric utilities company located in Houston, Texas that had around 21,000 employees by mid-2001, before it went bankrupt. Its revenue in the year 2000 was more than \$100 billion and named as "America's most innovative companies for six consecutive years by Fortune. Enron scandal has become a symbol of institutionalized and well-planned corporate fraud. The Enron scandal involves both illegal and unethical activities..

According to Carroll and Buchholtz (2008)^[13], the CFO Jeffrey Skilling and the CEO Ken Lay played major roles in the Enron scandal. Both of them committed securities fraud and conspiracy to inflate profit. In disguise debts of Enron, Lay and Skilling used off-the-books partnerships, after that "they lied to investors and employees about the company's disastrous financial situation while selling their own company's shares" (Carroll & Buchholtz, 2008, p. 256)^[13]. Enron's top level management had violated several accounting laws, SPE laws, and bent the accounting rules to satisfy their own desires of profit in the short term but ignoring long term repercussions for investors, stockholders, employees and the business itself.

The above two examples clearly demonstrates the close connect between leaders and the organizational ethics. The failure of the two renowned organization viz : Satyam computers and Enron , which were one of the largest

and most innovative companies brings to light the unethical leadership and its far reaching implications on the organisation and the industry as a whole. It also once again highlights the importance of values and ethics in an organization and asserts that ethics should be made a priority. It can be rightly said that , ethics cannot exist without leadership and leadership cannot exist without ethics since the very act of leadership generates ethical dilemmas that must be resolved.

Conclusion:

Values and ethics are the principles or the codes of conduct that govern our actions and decisions. Business ethics are fundamental to an organization and play a vital role in increasing the productivity and efficiency of the organization and also in saving the organization from a crisis. Leaders play a dominant role in creating, sustaining and developing an ethical environment. Leaders ought to be crucial source of ethical guidance to the employees and should at the same time be responsible for moral development in the organization. The fall of major companies like Satyam computers and Enron puts a big question mark on the values and ethics in an organization. These scandals are a lesson for the corporate world that ethics should not be taken for granted rather should be made a priority for successful and smooth functioning of the organization.

Suggested readings:

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