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## ***ETHICS: ORGANISATIONAL CULTURE OR LEADERSHIP***

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### **Abstract**

*The increasing power of the organization and the decline of the state as a primary institution in the country have made it necessary for many analysts to continuously propose a deeper role of the state in managing the conducts of the organization. There are lots of cases of unethical business practices in many organizations and this is despite the clear credo of the organization in terms of the need for the organization to maintain their values. This means that the proliferation of unethical practices in the large corporations nowadays may be brought about by the incoherence of business goals and business ethics.*

**Key-words:** business ethics, organizational culture, leadership, organizational behavior, employees

### **Introduction**

Business ethics has been discussed as a very important part of the existence of business. The recent proliferation of high profile business scandal has started to question the compatibility of business and ethics. With the expansion of the perspective on the issue, business ethics is becoming more and more challenging for the business. The increase in the number of cases of business failures due to fraud and other malpractices have started to emerge as a very important

catalyst to the increase in the discourse about the need to revitalize business ethics awareness in the workplace. The increasing power of the organization and the decline of the state as a primary institution in the country have made it necessary for many analysts to continuously propose a deeper role of the state in managing the conducts of the organization. There are lots of cases of unethical business practices in many organizations and this is despite the clear credo of the organization in terms of the need for the organization to maintain their values. This means that the proliferation of unethical practices in the large corporations nowadays may be brought about by the incoherence of business goals and business ethics.

Another problem that this paper would like to address is the kind of roles business leaders have in terms of the success and perpetuation of business ethics in the workplace. Since it is the leaders who direct the operations and functions of the business, it is very important that the leaders are focused in terms of their behavior and actions. They certainly play a great role in leading the behaviors and actions of the individual members. In this respect therefore, they should be able to provide some important impacts on the success of business ethics in the workplace.

The problem indeed that should be resolved in the workplace is the kind of interplay between individual and the group that would revitalize the ethics in business. While the individual plays a very important role, it is also very important that the organization has its own culture that would actually reinforce or punish behaviors and actions that are not based on the ethics and values of the organization. Finally, there is also a need to recognize the fact that there are lots of issues that should be addressed in terms of ethics in the workplace. Despite the difficulties of making ethics compatible with the goals of the organization in terms of success and profits, there is a need to realize that they are not in conflict with each other at all.

### **Ethics in the workplace**

Financial difficulties in an organization are certainties that are part of the dynamics in the corporate world. When an organization becomes quite focused on the bottom line of the business, there is a tendency for leaders to actually fail to acknowledge important values and ethics failure could eventually occur. Many business ethics researches have started to focus on the role of leaders in the failure of ethics in the business. The culture of the organization and the leadership in the organization is a major factor on the creation of the dynamics on whether the organization will have an ethical environment or not. Ethics failure cannot be eradicated completely from an

organization. No matter how much control the organization would have on its members, there are always certain gaps that would create incentives for members of the organization to be involved in unethical behavior in the business. It is therefore important that organizational behaviors are directed towards incentives that would minimize unethical practices.

Leaders have a central role in the generation of ethical decision-making in the workplace. It is very important that organizations implement ethical norms and ensure that the practice of these norms also comes from the top of the organization. Social capital is not an individual effort. Social capital is not acquired through individual acting on their own but it should be based on prevalence of social ethics rather than individual practice of ethical behavior. Social capital is harder to acquire than human capital since the formation of this capital is highly dependent on the social ethics of an organization. The behavior of the firms could have some important impacts on the ethical habits of the society in general. Since most people develop their affairs and transactional capacity through the workplace, unethical practices in the workplace would have an impact on the way members of the organization would deal with the community or social sphere other than the place of work.

Another important point is the culture recognition in the workplace. Recognition is a very important factor that makes people commit on ethical behavior in the workplace. Recognition is very important in boosting the ego of the person. Recognition is not just confined within the workplace. This could also go as recognition in the industry and in the business world as a whole.

The success of an organization is usually attributed to the capacity of its leadership, therefore most of the time the name of the leader becomes synonymous to the name of the company. The problem of business ethics inevitably springs from the actions of individuals or members of the organization. When an individual becomes unethical in the workplace, and this individual exerts much influence in an organization, this becomes systemic and perpetuates to other members of the organization. Once this becomes systemic, the unethical behavior does not become an individual unethical behavior but eventually becomes an organizational problem.

Ethics is a very important aspect in shaping organizational behavior. This is because unethical business behaviors would certainly have an impact on the organization. First, this would affect the commitment of the employee and would eventually translate to higher turnover rates. Most of the time, employees who are aware of the unethical practice would suffer indirect guilt and anxiety in the workplace. These feelings could affect the relationship of employees

within the workplace and therefore could eventually affect the performance of the employees in the workplace. There is also a need to consider that many of the actions of an individual who is unethical would likely influence the actions of other members of the organization thus in the end changing the norms in the workplace about behavior and ethics. Members of the organization who see the behaviors of other members who are acting unethically have a tendency to actually believe that these behaviors are acceptable in the workplace. These unethical behaviors would have an impact on the creation of further unethical behaviors. The problem indeed is that while socially irresponsible actions are actually from an individual action, it would be the integrity of the organization as a whole that would be affected. As the organization starts suffering legitimacy problems and public image starts to become tarnished, the organization would start to crumble and eventually leads to its failure.

What steps could be done in order to curtail unethical behavior in the workplace? The first problem is the distribution of power in the organization. The concentration of power does not give employees sufficient capability in terms of decision-making. Secondly, there is the problem of lack of sufficient resources that would provide training and education regarding ethics and its relationship with the strategic goals of the company. Thirdly, there is also the problem of leadership. This is not to say that leaders are unethical. The problem is that there is no effective rewards and incentive system that would help in fostering ethics as priority in the workplace environment. The role of human resource management is very important in this case. It is the members of the organization that perpetuates ethics in the workplace and therefore this has important implications in shaping the behaviors of the employees.

### **Stakeholder theory: a perspective on ethics**

Business ethics could be discussed using the arguments of the stakeholder theory. A convincing justification on maximizing shareholder wealth should be based on a moral argument in order for it to be legitimate. Milton Friedman has provided a convincing argument about the need for firms to maximize the wealth of the shareholder. The argument of Milton Friedman lies in the moral property rights of the individual. According to this, the shareholder buys shares in the company and expects the value of their share to go up. It is thus the responsibility of the company to actually maintain a decent yield for the investment of the shareholder. If the company fails in this respect, then they are violating the property rights of the shareholder.

This concept of ownership of the shareholder of the firm makes the maximization of profit more defensible and legitimate. The presence of legal obligations of the businesses and firms means that indeed they have moral obligations as well. One of the moral obligations indeed is the fact that they have responsibility and obligation in stakeholder fairness. The organization or firm thus has an obligation on the stakeholder to make use of their cooperative resources for the maximization of their wealth. Since the shareholder is a significant contributor in the organization, the company or firm owed them a significant obligation.

There are however certain questions regarding the entities that should be considered as stakeholder to the organization. Usually stakeholders of the organization are those that have close relationship with the organization. This concept has already expanded to include all the entities that would be affected through the actions of the organization. The stakeholders of the organization should therefore include all the people who would get affected through the action of the organization, which of course include the community where the organization belongs to. The stakeholder theory proposes that direct stakeholders of the organization are those to which the organization has direct obligation, such as shareholders of the company. On the other hand, there are also other stakeholders of the organization that could actually exert some influence on the organization. Community for example, is always considered as stakeholder of an organization due to the fact that they exert power on the success of the organization. Consumers are essential part of the business.

Since the organization has lots of stakeholders, the firm or company would have to consider the kind of benefits that stakeholders would like to have from the organization. For example, the organization would have to know the desires and goals of the human resource and they must be able to sustain at the minimum the goals of this particular group. Public relations are handling the concerns of the community and how the relationship of the organization with the community could be further enhanced. Despite this knowledge, there are still lots of issues that the organization is not really aware of. This means that organization would have to continuously search for the kind of relationship that the stakeholder would like to have with the business or company. It is very important that the organization maintains an effective communication with the stakeholders. Communication with the stakeholders is definitely essential to the success of the organization in fulfilling their direct and indirect obligations with their stakeholders. Through the constant communication with the stakeholders of the company, the organization would be able to

effectively provide organizational goals that would be able to meet the minimum needs of the stakeholders.

There is another dilemma in the stakeholder theory that should also be addressed. This is the question of allocation of resources of the organization to the needs of their stakeholders. There is no doubt of course that their resources should be used for the best interest of their direct stakeholders such as their investors. There is a need for the organization to consistently seek the interest of their shareholders in order to ensure that they provide them with the best possible use of their contributed resources. The stakeholder theory could provide guidance on the way the organization manages their actual stakeholders. Stakeholder theory proposes that all the stakeholders that have relevant power over the business and could get affected through the actions of the business should be given sufficient voice and should be given sufficient resources. Sufficient does not however mean equality of distribution. Balancing the demands of the stakeholders does not mean that distribution would be equal to each stakeholder. Share in the outcome of the organization should be based on the need for the organization to actually consider the contribution of the entity to the organization and how they could be affected through the actions of the organization. This means that the organization does not really have to provide all resources for all their stakeholders. This would be impossible considering the limited resources of the organization. What is important is to continuously meet the minimum needs of their stakeholders and prioritize according to their obligations and responsibilities with each organization.

### **Managerial solutions**

First, the organization must be able to give each employee to have the liberty over their actions. This means giving them accountability and responsibility on their actions and decisions while maintaining a guiding principle based on ethics and corporate social responsibility. The enhancement of freedom would help the employee realize the value of the ethics and responsibilities in the workplace and have a concrete and clear idea on ethics and social responsibility.

Secondly, there is also a need to help employees be aware of the positive and negative influences around them. There is thus a need to enhance their initiative and efforts in ensuring that they are aware of their ethical stands and be careful on environmental factors that would bend

these unethical behaviors. Employees or members of the organization should be sensitive on these issues that may affect their behaviors and they should strengthen their values even more. Managing the impacts of others on decision making should be enhanced in order to respond appropriately to environmental influences. The ability of the members of the organization to be aware of these influences is very important. It is also very important that employees are knowledgeable and have access to resources that would aid them in their decision making. This means that the organization must provide important measures that would help them in ensuring that their decisions are well-informed. Leaders thus must be always accessible in order for the employees to have informed decisions regarding the organization. The problem indeed with many organizations is that members lack access to resources that would help them in their decisions. If employees are concerned over the responsibility of a certain conduct then they would need to have institutions that would help them decide over the soundness and ethical groundings of their actions.

Finally, there is a need for a sound leadership that would help foster a culture that would enhance all of these actions. An effective leadership that would effectively illustrate the kind of culture that the organization would like to have is very important if an organization would like to continuously provide an effective control of actions of their members. The right tone through the actions of the leaders would have an impact on the kind of influences that the members would acquire. The ability of the leaders to effectively illustrate the culture of ethics and social responsibility is central to controlling the right influences needed in order to enhance the capacity of the members of the organization to act out positive influences.

One of the important components of educational efforts is to continuously ensure that the efforts of the organization are actually directed towards the enhancement of reasoning of individuals in terms of deciding on ethical issues. Enhancement of reasoning is very important in constructing a positive response or constructive responses to ethical issues. There is also a need to enhance the training on managing the influences of others on ethical decisions. This means that training programs should be able to include exercises on how to respond to important influences and how to respond to them in cases where ethics and conduct are at stake. Articulation of responses to major influences would help the individual realize important factors that may influence them in their decision making.

Training and education programs should help employees in recognizing all the resources available to them in order for them to assess their decisions. This includes resources that are available for decision making and resources that would help them in actually confronting the environmental influences that may occur and would affect their ethical decision making. These programs and training may use a lot of hypothetical scenarios that are commonly faced inside the organization and help employees assess their stand on the issue, the possible stands of influences around them, and the resources available for them in terms of deciding on the issue especially if this involves ethical issues.

Important for education and training programs is the focus and emphasis on the available resources for the organization. The organization must continuously emphasize that there are lots of opportunities and resources that are available to each member of the organization in terms of responding appropriately to ethical problems and issues. While employees may have the capacity to reason out on ethical problems, they may lack the resources that would help them effectively control their actions. The greater the support of the organization is on the ethical practices of their employees, and the greater the resources that are available to them, the more employees would feel that they are actually empowered to decide on these ethical issues.

### **Conclusions**

Business ethics has become a major issue for many companies. There are several analyses of the problems of ethics in the workplace. First is the problem of leadership. Leadership and communication in the workplace is very important in the struggle of the business to provide effective structures of business ethics. The behavior of the leaders and the kind of values embodied in their actions reflect the direction of business ethics. Their adherence to the ethics or their violation of the ethics send signals on the organization on what norm should be followed and what values are to be aspired.

Secondly, there is a need to consider that culture and values of the organization plays a very important part in the ability of the organization to actually respond well with the demands of business ethics. The kind of values and cultures that emanates in the workplace is influential in changing the individual psychologies in the workers. There is therefore a need for organization to create a culture that is conducive for the promotion of ethical conduct. Values and culture could be directed through the use of effective incentive and motivational structures within the company.

The company should motivate their employees to respond to the needs of the company and to their personal needs through the boundaries of ethics.

Finally, there is a need for the corporate world to be open to the fact of business failures. The inability of the business world to actually accept any form of failure makes it necessary for managers and leaders to be increasingly pressured to meet the ever increasing demands regardless of the means.

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