Creating Cultural Alignment to Improve Business Outcomes

# THE ETHICAL LEADERSHIP MODEL

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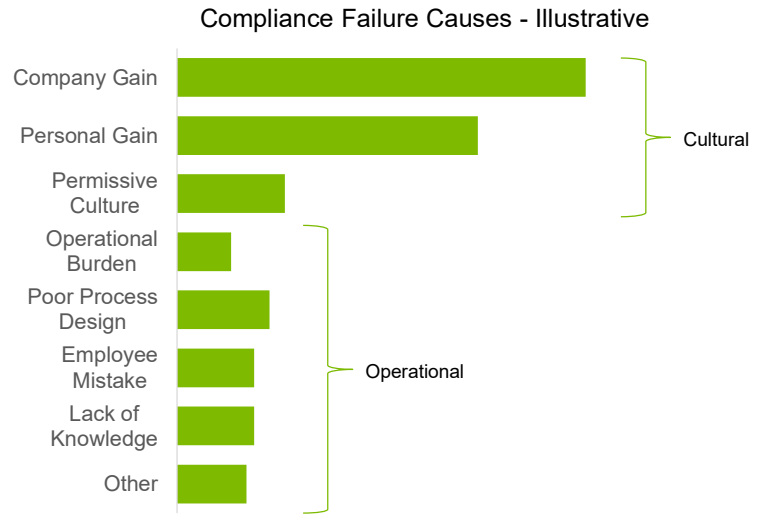
## MISCONDUCT AND CULTURE

Culture is the leading cause of compliance (business) failures.

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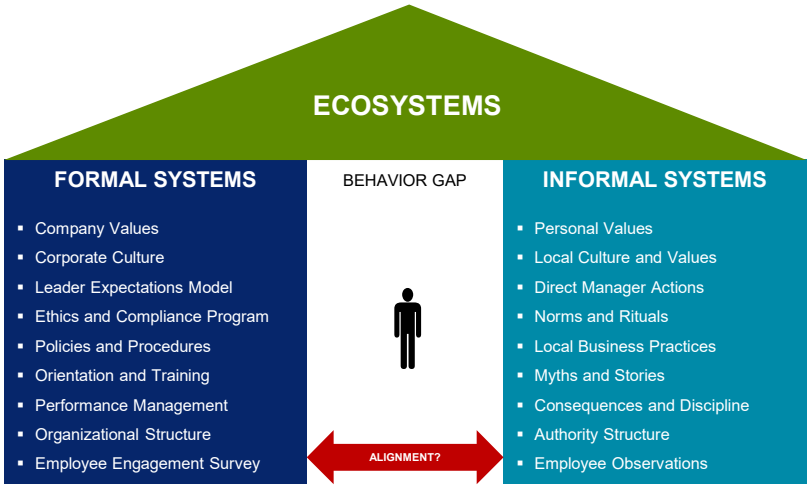
## CULTURAL SYSTEMS

Misalignment creates inconsistencies, uncertainty and risk.




**SOURCE**: Adapted from L. Trevino, *Managing Business Ethics*, Sixth Edition

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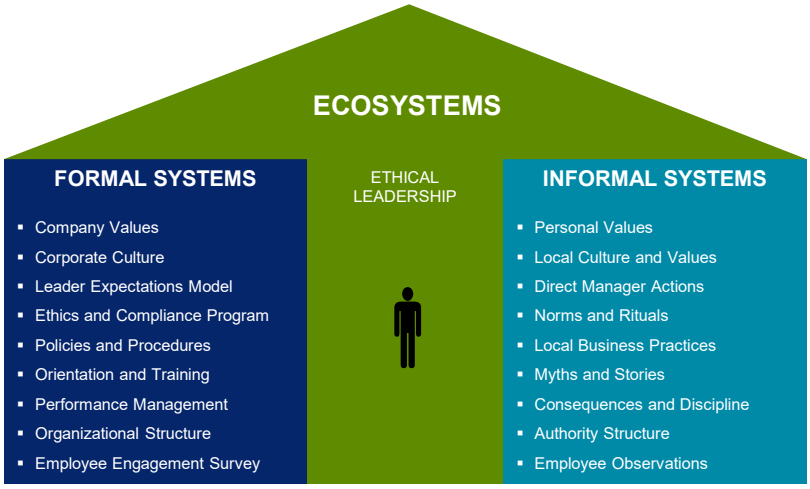
## MORE THAN TONE AT THE TOP

Ethical Leadership creates alignment, decreases uncertainty, and reduces risk.




**SOURCE**: Adapted from L. Trevino, *Managing Business Ethics*, Sixth Edition

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What do we mean by Ethical Leadership?

# DEFINITION

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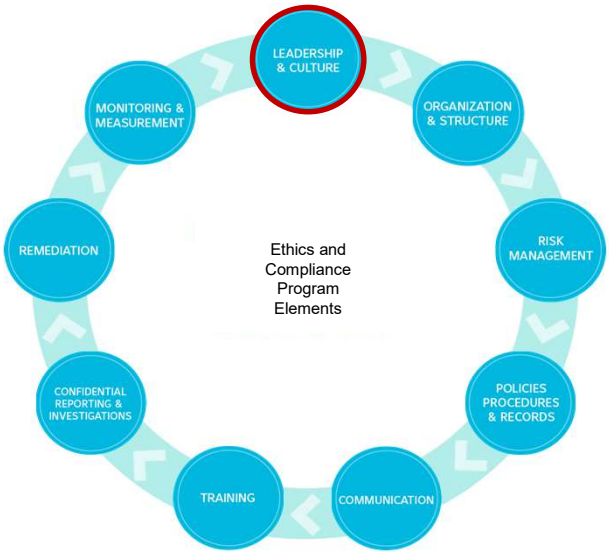
## LEADERSHIP AND CULTURE

Ethical Leadership is the one element that leaders can't delegate.

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## LEADERSHIP AND CULTURE

Values drive culture, and culture drives behaviors – both good and bad.

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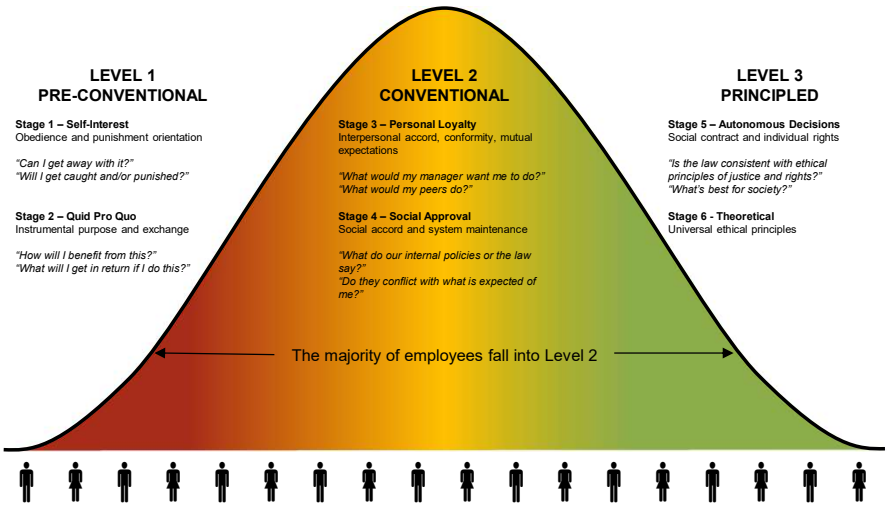
## MORAL COGNITIVE DEVELOPMENT

Most people look outside themselves to determine right and wrong.




**SOURCE**: L. Trevino, *Managing Business Ethics*, adapted from L. Kohlberg, "Moral Stages and Moralization: The Cognitive-Developmental Approach, " in *Moral Development and Behavior: Theory, Research, and Social Issues*, ed. T. Lickona.

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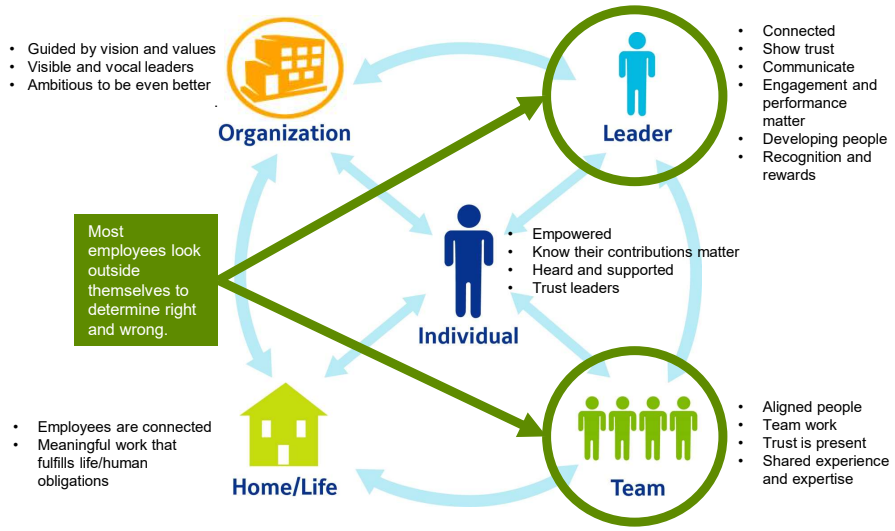
## ECOSYSTEMS AND CULTURE

The disproportionate influence of direct managers and peers.

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## BEHAVIORS AND CULTURE

Ethical Leadership behaviors and expectations are consistent across cultures.

*How important are the following ethical leadership behaviors (by rank)?*

| | Overall | U.S. | Canada | Europe | Asia |
|---|---|---|---|---|---|
| Keep promises | 1 | 1 | 1 | 1 | 1 |
| Encourage open communication and ensure no retaliation | 2 | 3 | 2 | 2 | 2 |
| Keep employees informed | 3 | 4 | 4 | 3 | 4 |
| Support employees who follow standards; apply appropriate disciplinary actions for violations | 4 | 2 | 3 | 4 | 3 |
| Talk about the importance of business ethics internally and externally | 5 | 6 | 6 | 6 | 6 |
| Apply and articulate ethical criteria with decisions | 6 | 5 | 5 | 5 | 5 |
| Keep investors, customers and community informed | 7 | 7 | 7 | 7 | 7 |
| Provide required resources for achieving an ethics-centric culture | 8 | 9 | 9 | 8 | 8 |
| Participate in all ethics processes, e.g., ethics training | 9 | 8 | 8 | 9 | 9 |

**SOURCE**: American Management Association, *The Ethical Enterprise – Doing The Right Things In The Right Ways, Today and Tomorrow – A Global Study of Business Ethics, 2005-2015* – based on the AMA/HIR Business Ethics Survey

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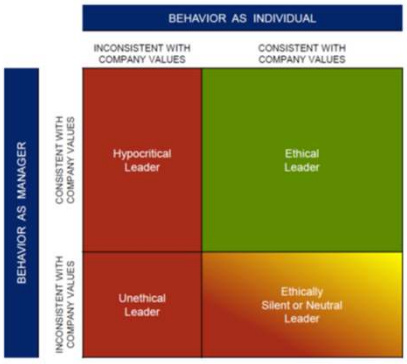
## ETHICAL LEADERSHIP

Requires Leaders to consistently exemplify and amplify three core behaviors.




**Ethical Leaders visibly demonstrate:**

1. **Personal Integrity**
   - Honest and Trustworthiness
   - Caring and Concern for Others
   - Respect and Fairness
2. **Ethical Role Modeling**
   - Authentic ethical behavior and decision-making processes
   - Open, honest, inclusive and transparent two-way communication
   - Consistent and constant messaging on Integrity and ethical behavior
   - Promotion of a speak-up culture and non-retaliation
3. **Ethical Management**
   - Sets standards and expectations for ethical behavior
   - Holds people accountable for ethical lapses
   - Uses rewards and recognition to celebrate ethical successes
   - Uses punishment to discipline ethical lapses and poor management
   - Hires, develops and promotes for Integrity and ethical behavior

**SOURCE**: Adapted from L. Trevino, *Managing Business Ethics*, Sixth Edition

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## The Impact of Ethical Leadership

## BENEFITS

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## EMPLOYEE ENGAGEMENT

Ethical Leadership is strongly correlated with higher levels of engagement.

**Findings:**

- Positive perceptions of an organization's ethical culture are associated with higher levels of employee engagement
- Management's commitment to ethics is particularly important for employee engagement
- Employees who observe misconduct in the workplace are less engaged than those who do not
- Engaged employees are less likely to feel pressure to commit misconduct
- Engaged employees are more likely to report misconduct

**Measures employee's perceptions of:**

- Open and honest communication
- Positive ethical role modeling
- Accountability

**SOURCE**: Ethics Resource Center. 2009 National Business Ethics Survey – Ethics and Employee Engagement

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## HIGH ETHICAL CULTURES

Ethical Leadership encourages ethical behavior and reporting.

| | LOW ETHICAL CULTURES | HIGH ETHICAL CULTURES |
|---|---|---|
| **REPORTING RATES** | ↓ | ↑ |
| **OBSERVATION RATES** | ↑ | ↓ |

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## ACTIVATING ETHICAL CULTURE

Ethical Leadership develops role-models that influence positive behaviors.

| | HEARING | SEEING | DOING |
|---|---|---|---|
| Major drivers that shape culture and shared values | Hearing something from people I trust | Seeing persuasive evidence from managers and peers | Experiencing something myself |
| Translating shared values into actions | Knowing what to do and how | Seeing role models to emulate | Acquiring the necessary skills, tools and resources |
| Building confidence and reinforcing behaviors | Highlighting peers who are succeeding | Seeing the value and benefit from decisions made | Architecting positive reinforcement from peers and managers |
| Building advocacy at scale and driving culture | Knowing that something enhances my identity and reputation | Seeing recognition and rewards for speaking-up and taking action | Enabling me to share my opinions and experiences openly |

**SOURCE**: Adapted from the Arthur W. Page Society – "Building Belief: A New Model for Activating Corporate Character & Authentic Advocacy" - 2012

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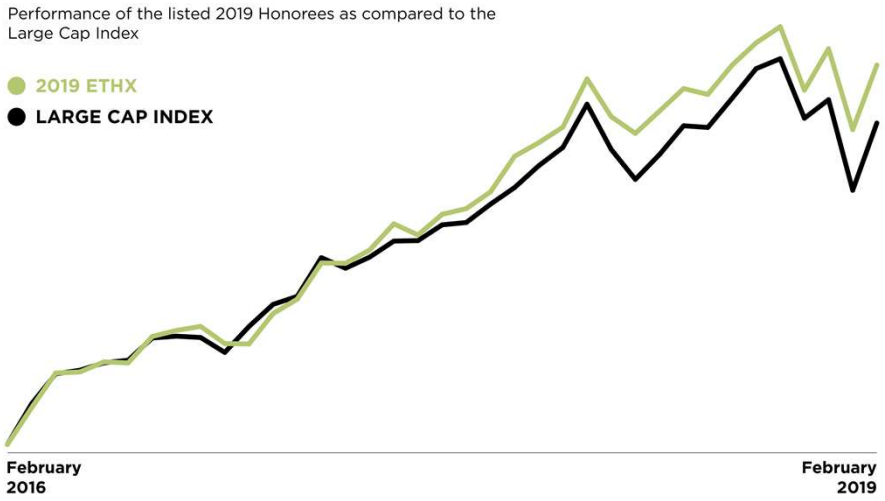
## GLOBAL GROWTH

Ethical Leadership drives tangible business results by influencing culture.




**SOURCE**: Ethisphere 2019

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How to Amplify Ethical Leadership

# The Model

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## ETHICAL LEADERSHIP MODEL

Uses simple nudges and leverages existing programs, processes, and tools.

| ETHICAL LEADERSHIP MODEL | LEADERSHIP DEVELOPMENT | LEADERSHIP COMMUNICATION | LEADERSHIP ACCOUNTABILITY |
|---|---|---|---|
| PERSONAL INTEGRITY | Recruiting<br>Onboarding<br>Exiting | Personal Stories<br>Success and Failures<br>Lessons Learned | Reward Successes<br>Address Failures<br>Promotions and Career Moments |
| ROLE MODELING | Competencies & Skills<br>Training Facilitation<br>Ethical Decision-Making | Consistent and Frequent<br>Multiple Channels<br>Plan and Toolkits | Engagement Survey<br>Cultural Surveys<br>360º Reviews |
| TEAM & PERFORMANCE MANAGEMENT | Strategic Talent Reviews<br>Leadership Training<br>Promotions and Career Moments | Portal Stories<br>Blogs/White Papers<br>Town Halls/Summits | Goals and Objectives<br>Performance Reviews<br>Forensic Reviews/Audits |

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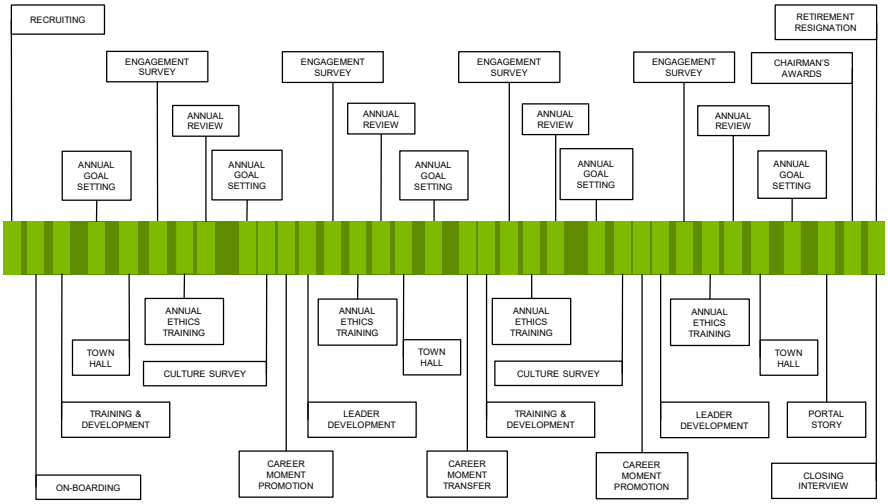
## CAREER MOMENTS

Ethical Leadership must be salient and tangible during the career life-cycle.

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## QUESTIONS?

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