

Chapter II

Ethical Challenges of Modern Leadership

The chapter first describes modern leadership followed by the theories of moral leadership and ethical challenges. Ethical challenges of modern leadership in particular are addressed after that.

2.1 Modern Leadership and Ethics

2.1.1 Modern Leadership

Leadership has been described by Oxford Dictionary¹ as: the action of leading a group of people or an organization, or the ability to do this. It also means: the state or position of being a leader; the leaders of an organization, country, etc. Studies in leadership field have offered several definitions of leadership. For instance, leadership is defined as “the exercise of influence in a group context” (Bass, 1990). Leadership is “that part of management that involves the supervision of others” and “an ongoing transaction between a person in a position of authority and the social environment”² Leadership is the art of mobilizing others to want to struggle for shared aspirations.³ Leadership has also been described as “in essence, a process: a series of actions and interactions among leaders and followers which lead to the attainment of group goals” (Wren, 1995) and “a process whereby an individual influences a group of individuals to achieve a common goal” (Northouse, 2007). Some describes leadership by distinguishing between leading and following. Leaders exert a greater degree of influence and take more responsibility for the overall

¹ <http://www.oxforddictionaries.com/definition/english/leadership>

² Fred E. Fiedler, “Research on Leadership Selection and Training: One View of the Future”. **Administrative Science Quarterly**, Vol. 41 (1996): 242-243.

³ J. M. Kouzes & B. Z. Pozner, **The leadership challenge**, (San Francisco, CA: Jossey-Bass, 1987), p. 30.

direction of the group; followers are more involved in implementing plans and doing the work.⁴

Though these definitions of leadership vary somewhat, they share a common notion, i.e. the influence of an individual over others to achieve the established goal. The definition of leadership in this study is in line with this common notion and also with the view that leadership is a process. Leadership is hence defined as “a process whereby an individual influences others in a group context (e.g. an organization) to achieve a shared goal”. The process that the individual influences others include among others building shared vision, instilling the leader’s values in others, being a role model and a coach for others, motivating others with intrinsic and extrinsic rewards, creating supporting environment to facilitate the goal’s achievement, using positional power or charisma to direct others to work as a team towards the goal. It should be noted that the meaning of “others” that leadership exerts influence has been broader than in the past, that is, it has been extended from followers to other stakeholders such as stockholders, customers, suppliers, etc.

The field of leadership during the recent decades tended to focus on leaders in relation with people involved as well as their context. Fiedler, one of the leading researchers in Industrial and Organizational Psychology of the 20th century, for example, referred to leadership research before year 1945 as primarily concerned with identifying traits, behaviors, and personality patterns that would differentiate leaders from non-leaders.⁵ However, during the period of over past four decades, the most important learnt lesson is an interaction between leader and environment which influence the performance. Similarly, Burnes & By (2012)⁶ indicated that the study and practice of leadership has undergone a sea change in the last 30 years and explained that the older theories of leadership, such as the trait model and the leader–follower model, have been overtaken by the contextual or situational model. Such approach stresses that leadership is primarily concerned with bringing about

⁴ Craig E. Johnson, **Meeting the Ethical Challenges of Leadership: Casting Light or Shadow**, (California: SAGE Publications, 2015), p. xix.

⁵ Fred E. Fiedler, “Research on Leadership Selection and Training: One View of the Future”, p. 243.

⁶ Bernard Burnes & Rune T. By, “Leadership and Change: The Case for Greater Ethical Clarity”, **Journal of Business Ethics**, Vol. 108 (2012): 230.

transformational change and that effective leaders are those who can adapt their leadership style to the context in which they are operating (e.g., Burns, 1978; Yukl, 2010). In the same token, Avolio et. al⁷ made explicit that over the past twenty years, the field of leadership has a focus on leaders and the people involved, work context and culture in various types of organizations around the world.

Besides the increasing interest in situational model of leadership, the notion of ethics of leaders has also been paid wider attention. Ciulla⁸ states that it is fair to say that ethics lies at the heart of leadership studies and that **good** leadership means “morally good and effective” leadership. Gardner⁹ opines that “Leaders... contribute to the continuing definition and articulation of the most cherished values of our society. They offer, in short, moral leadership.” Johnson (2014) asserts that when the benefits of leadership are assumed, ethical burdens are also assumed.

Based on the recent trend in the study of leadership, modern leadership can be depicted as leadership that focuses on people, context, and cultures. Due to globalization, economic collaboration among countries, and advanced communication technology, modern leadership is exposed to broader contexts of workplace, to people of different origins and cultures, and to bigger groups of stakeholders, most of who obtain rapid information and require instant responses or clarifications to dubious situations. Modern leadership is understood to bring about transformational change for the sake of organization’s sustainability. The sustainability of an organization is suggested to be in line with the morality of leadership¹⁰, and thus modern leadership is expected to be moral. Modern leadership is defined in this study as “leadership that focuses on linking its organization to wider contexts with great concern on the development of its people and the drive for the organization’s sustainability.” This definition calls for modern leadership to be visionary, creative, transformative,

⁷ Bruce J. Avolio, Fred O. Walumbwa & Todd J. Weber, “Leadership: Current Theories, Research, and Future Directions”, *Annual Review of Psychology*, Vol. 60 (2009): 422

⁸ Joanne B. Ciulla, “Leadership ethics: Mapping the territory”. *Business Ethics Quarterly*, Vol. 5 (1) (1995): 17

⁹ J. Gardner, The antileadership vaccine. In Rosenbach, William E. and Taylor, Robert L. (Eds.), *Contemporary Issues in Leadership*, (Boulder: Westview Press, 2006): 121.

¹⁰ D. Arbhasil, “Moral Manger and Corporate Sustainability”. Paper presented at the 1st Annual International Conference on Multidisciplinary in Management, NIDA, Bangkok, October 30, 2015.

flexible, inspirational, and ethical. A modern leader needs to analyze and evaluate current and future situations correctly and creatively sets the vision of the organization which reflects the organization's position in the wider context. The modern leader needs to continuously evaluate situations and be flexible in adjusting to volatile situations. The modern leader needs to bring necessary changes to the organization and motivates or inspires the people in the organization to collaborate in these changes to achieve organizational sustainability. The modern leader focuses on the development of his/ her people to be capable of handling changing situations and stakeholders based on ethical standards. The modern leader is advocated with prevalent moral theories which are described in the next topic.

2.1.2 Theories of Ethical / Moral Leadership

A critical review of leadership theory that has emerged since 2000 indicates ethical/ moral leadership theories as one emergent category;¹¹ this supports the description of modern leadership in that ethics or morality is one key concern. The category encompasses a few leadership theories which share common interest in positive, humanistic behaviors, that is, the altruistic behaviors¹². The moral leadership theories include: authentic leadership, ethical leadership, servant leadership and spiritual leadership.¹³ Another important leadership theory that has morality as the core and is classified as “neo-charismatic” is transformational leadership.

2.1.2.1 Authentic Leadership Theory (ALT). The theory presents leaders who have an internalized moral perspective as a guide for their actions. Authentic leadership is described succinctly as: **Know yourself and to your own self be true.**¹⁴ Authentic leaders are true to themselves and what they believe. Proponents of authentic leadership theory identify authenticity as the “root construct” or principle underlying all forms of positive leadership. Authentic leadership, according to Avolio and his colleagues (2009) has a strong moral component and these scholars make

¹¹ Jessica E. Dinh, Robert G. Lord, William L. Gardner et.al., “Leadership theory and research in the new millennium: Current theoretical trends and changing perspectives”, **Leadership Quarterly**, Vol.25 (2014): 40.

¹² Ibid., p.57.

¹³ Ibid., p.47.

¹⁴ Craig E. Johnson, **Meeting the Ethical Challenges of Leadership**, p. 242.

ethics a starting point of their theory. The practice of authentic leadership leads to sustainable and veritable (ethically sound) organizational performance.¹⁵

Authenticity has four components: self-awareness, balanced processing, internalized moral perspective, and relational transparency.¹⁶ **Self-awareness** means being conscious of, and trusting in, own motives, desires, feelings, and self-concept. Self-aware people know their strengths and weaknesses, personal traits, and emotional patterns, and they are able to use this knowledge when interacting with others and their environments. **Balanced processing** means remaining objective when receiving information. Authentic leaders process positive and negative information in a balanced fashion. **Internalized moral perspective** refers to regulating own behavior according to own internal standards and values, not according to what others say. **Relational transparency** refers to presenting the authentic self to others, openly expressing true thoughts and feelings appropriate for the situation. Authenticity can be developed or triggered by dramatic as well as mundane events such as facing racial hatred and reading a book, respectively. Authenticity can also be fostered through training and education. For example, trainers and educators can help leaders develop their moral capacity by:¹⁷ (1) encouraging them to think about the possible consequences of their leadership actions, (2) enhancing their perspective taking through discussion and training, (3) exposing them to common moral dilemmas to help them recognize the ethical issues they will face in their jobs, (4) building their belief in their ability to follow through on choices, (5) helping them develop strategies for adapting and coping with new ethical challenges, and (6) pairing them with moral leaders so they can observe authentic behavior firsthand.

Authentic leadership produces a number of positive ethical effects in followers.¹⁸ Followers are likely to emulate the example of authentic leaders who set a high ethical standard. They feel empowered to make ethical choices on their own. They align themselves with the values of the organization and become authentic

¹⁵ Bruce J. Avolio & William L. Gardner, "Authentic Leadership development: Getting to the root of positive forms of leadership", *Leadership Quarterly*, 16 (2005): 334.

¹⁶ Fred O. Walumbwa, Bruce J. Avolio, William L. Gardner, et. al., "Authentic Leadership: Development and validation of a theory-based measure", *Journal of Management*, 34,(2008): 95.

¹⁷ Remus Ilies, Frederick P. Morgeson, Jennifer D. Nahrgang, "Authentic leadership and eudemonic well-being: Understanding leader-follower outcomes", *Leadership Quarterly*, 16 (2007): 373-394

¹⁸ Craig E. Johnson, *Meeting the Ethical Challenges of Leadership*, p. 242.

moral agents themselves. Leader authenticity also fosters feelings of self-efficacy (competence), hope, optimism, and resilience in followers. Authentic followers provide feedback that reinforces the authentic behavior of leaders and increase the leaders' self-knowledge. Authentic leadership and followership are more likely to develop in organizational climates that provide the information and other resources that employees need to get their work done, encourage learning, treat members fairly, and set clear goals and performance standards.

A few cautions about ALT include¹⁹: (1) ALT overstates the significance of authenticity. The underlying premise of ALT that authenticity is the source of all positive forms of leadership is debatable since there may be some other undiscovered source, (2) theorists tend to equate authenticity or self-awareness with morality. However, some leaders have core value that promotes self-seeking, destructive behavior, (3) authenticity can be defined as a personal characteristic or as a perception. Being authentic is not enough, one must also appear authentic for authenticity to have a positive influence on organizational behavior. This could tempt leaders to be untrue to themselves, (4) the theory needs to be tested in other cultures. ALT research to date has largely been conducted in the United States.

2.1.2.2 Ethical Leadership Theory. The theory presents leaders who have internal virtue and engage in virtuous acts or behaviors that benefit others. Ethical leadership can be described succinctly as: **Have internal virtues and engage in virtuous acts.** Ethical leadership has been defined by two main different strands. One strand is the moral behavior or external aspect of leaders whereas another strand is moral cognition or internal virtue of leaders. Ethical leadership is defined in term of behavioral/ external aspect as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision making”.²⁰ Another definition of ethical leadership in term of behavior is: “the leader, in order to be ethical, must engage in virtuous acts or behaviors that

¹⁹ Ibid., pp. 245-246.

²⁰ M.E. Brown, L.K. Treviño & D.A. Harrison, “Ethical Leadership: A Social Learning Perspective for Construct Development and Testing”, **Organizational Behavior and Human Decision Processes**, 97 (2005): 120.

benefit others, and must refrain from evil acts or behaviors that harm others”.²¹ With regard to an internal virtue of leadership, a leader is considered ethical when inward virtues direct the leader’s decision-making process and virtues are amplified when the leader exhibits “imagination, compassion, empathy, and discernment”. A leader is motivated not by influencing others but rather living by one’s own virtues and followers simply are beneficiaries of a leader living a virtuous life.²² Ethical leaders incorporate moral principles in their beliefs, values, and behaviors.²³

An empirical study on ethical leadership made by Treviño, Hartman & Brown (2000)²⁴ to understand what the term ethical leadership means to proximate observers of executives found aspects of leadership, which were labeled as “moral person” and “moral manager”. The “moral person” aspect of ethical leadership represents observers’ perceptions of the leader’s personal traits, character, and altruistic motivation. The “moral manager” aspect of ethical leadership represents the leader’s proactive efforts to influence followers’ ethical and unethical behavior. Moral managers make ethics an explicit part of their leadership agenda by communicating an ethics and values message, by visibly and intentionally role modeling ethical behavior, and by using the reward system (rewards and discipline) to hold followers accountable for ethical conduct. Such explicit behavior helps the ethical leader to make ethics a leadership message that gets followers’ attention by standing out as socially salient against an organizational backdrop that is often ethically neutral at best.

2.1.2.3 Servant Leadership Theory. The theory, which was proposed by Robert Greenleaf (1977), has the basic premise that leaders should put the needs of followers before their own needs. Greenleaf states that:

The leader-first and the servant-first are two extreme types. Between them there are shadings and blends that are part of the infinite variety of human

²¹ R.N. Kanungo, “Ethical values of transactional and transformational leaders”, **Canadian Journal of Administrative Sciences**, 18 (2001): 259.

²² L.J. Cumbo, “Ethical leadership: The quest for character, civility and community”, **Current Reviews of Academic Libraries**, 47(4) (2009):726

²³ R. Khuntia & D. Suar, “A scale to assess ethical leadership for Indian private and public sector managers”, **Journal of Business Ethics**, 49 (2004):13-26.

²⁴ L.K. Treviño, L.P. Hartman & M. Brown, “Moral person and moral manager: How executives develop a reputation for ethical leadership”, **California Management Review**, 42 (2000): 128-142.

nature... The best test...is: do those served grow as persons; do they, while being served, become healthier, wiser, freer, more autonomous, more likely themselves to become servants?

Servant leadership could be described as: **Put the needs of followers first.** The servant leadership theory is founded on altruism.²⁵ Five related concepts appear central to servant leadership²⁶: (1) **Stewardship.** Leaders function as the agent of followers, who entrust them with special duties and opportunities for a limited time. Stewards reach their objectives through collaboration and persuasion rather than through coercion and control; (2) **Obligation.** Servant leaders take their obligations or responsibilities seriously; (3) **Partnership.** Servant leaders view followers as partners, not as subordinates. Leaders strive for justice in the distribution of power as well as rewards to followers; (4) **Emotional healing.** Servant leaders create climates that facilitate the sharing of personal and work-related feelings and issues; (5) **Elevating purpose.** Servant leaders serve worthy missions, ideas and causes.

Servant leadership has not met with universal approval. Some misunderstood servant leadership to equate with weakness. Servant leadership is also difficult to implement in situations such as during emergencies. Besides the negative connotation of the term 'servant', servant leadership may pose danger if leaders offer unwise services.

2.1.2.4 Spiritual Leadership Theory. The theory is developed within an intrinsic motivation model that incorporates vision, hope/faith, altruistic love, workplace spirituality, and spiritual survival. Spiritual leadership can be described as: **Work out of a sense of calling.** Professor Louis Fry (2003) develops the spiritual leadership theory to explain how leaders tap into the desire for meaning and connection to transform organizations. Spiritual leadership is defined as comprising the values, attitudes, and behaviors that are necessary to intrinsically motivate one's self and others so that they have a sense of spiritual survival through calling and membership.²⁷ Spiritual leadership begins with the inner life of a leader. **Inner life** refers to the fact that one has spiritual needs (one's core identity and values) just as

²⁵ Craig E. Johnson, **Meeting the Ethical Challenges of Leadership**, p. 240.

²⁶ Ibid., pp. 236-238.

²⁷ L. W. Fry, "Toward a theory of spiritual leadership", **Leadership Quarterly**, 14 (2003):

one has emotional, physical, and intellectual wants.²⁸ Leaders who engage in spiritual practices develop: (1) hope and faith in a vision of service to others and (2) a commitment to altruistic love. Spiritual leaders model altruism and develop a vision that helps organizational members experience a sense of calling- the belief that life has meaning and makes a difference. This vision builds hope and faith in the future, and this encourages employees to put forth their best efforts and to persevere. Spiritually focused leaders also establish cultures based on altruistic love that fosters a sense of membership and connection.

Fry reports that spiritual leadership improves sales and financial performance while fostering corporate social responsibility.²⁹ Other studies about spiritual leaders (or leaders who see their work as a calling) demonstrate a higher degree of integrity (honesty) and humility, the character traits which, in turn, build trust with followers and foster honest communication.³⁰ Leaders who engage in common spiritual practices are found to be more ethical and more effective. The behaviors include: demonstrating respect for others' value, treating others fairly, expressing caring and concern, listening responsively, appreciating the contribution of others, and engaging in reflective practice.

Cautions about spiritual leadership include spiritual abuse. Leaders may use spirituality to reinforce their power, to seek selfish (often fraudulent) goals, and to foster dependence in followers. Common abusive tactics include, for example, overemphasizing spiritual authority and forbidding challenges from followers; demanding obedience as a sign of follower loyalty; insisting on rigid beliefs and behavior while demanding conformity and perfection; using nearly absolute power to engage in fraud, sexual immorality, and other unethical practices.³¹

2.1.2.5 Transformational Leadership Theory. The theory presents leaders who are guided by universal ethics principles, feel a sense of obligation to the group, and treat followers with respect. They are also altruistic and making sacrifices for followers, empowering others, and focusing on shared goals and objectives.

²⁸ Craig E. Johnson, **Meeting the Ethical Challenges of Leadership**, p.137.

²⁹ Ibid., p. 139.

³⁰ Ibid., p. 137; cf. Laura Reeve, "Spiritual values and practices related to leadership effectiveness", **Leadership Quarterly**, 16 (2005): 655-687.

³¹ Ibid., p. 140.

Transformational leadership was described succinctly as: **Raise the ethical bar.**³² The publication of the book “Leadership” by James MacGregor Burns in 1978 put forward the concept of transforming leadership. Burns contrasts traditional forms of leadership, which he calls “transactional”, with a more powerful form of leadership that he calls “transforming”. Transforming leaders differ from transactional leaders in that the former appeal to higher-level needs, such as esteem, competence, self-fulfillment, and self-actualization, thus changing the nature of the organizations or societies they guide. In contrast, the latter appeals to lower-level needs of followers by exchanging money, benefits, recognition, and other rewards in return for the obedience and labor of followers; the underlying system remains unchanged. To Burns, transforming leadership is a two-way process as he suggests: “[Transforming leadership] occurs when one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality... It is “a relationship of mutual stimulation and elevation that converts followers into leaders and may convert leaders into moral agents.”³³ Burns originally believed that the transforming leader is a moral leader because the end products are higher ethical standards and more ethical performance. He points to Franklin Roosevelt and Mahatma Gandhi, as leaders who transform the lives of followers and their cultures as a whole. However, some leaders can use transforming strategies to reach immoral ends. That is, a leader can act as a role model, provide intellectual stimulation, and be passionate about a cause, yet the end product can be evil. Hitler is cited as an example of a leader who transforms Germany but the end product is unprecedented death and destruction.

Bernard Bass developed Burns’ concept of transforming leadership into “transformational leadership” where the leader transforms followers- the one-way direction of influence. The transformational style of leadership suggested by Bass incorporates social change, which is a facet missing from Burn’s work. For Bass, transformational leaders may: expand a follower’s portfolio of needs, transform a follower’s self-interest, increase the confidence of followers, elevate followers’

³² Ibid., p. 230.

³³ R. Bolden, J. Gosling, J. Marturano & P. Dennison. **A Review of Leadership Theory and Competency Frameworks**, Center for Leadership Studies, University of Exeter. (June, 2003): 14.

expectations, heighten the value of the leader's intended outcomes for the follower, encourage behavioral change, and motivate others to higher levels of personal achievement.³⁴ Transformational leaders engage in higher-level moral reasoning, demonstrate greater integrity, are more successful at leading organizational turnarounds, encourage the development of positive ethical climates, institutionalize ethical practices, and foster social responsibility.³⁵

Transformational leadership is characterized by the following components: idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.³⁶ **Idealized influence** refers to leaders' becoming role models for followers who admire, respect, and trust them. Leaders put followers' needs above their own, and their behavior is consistent with the values and principles of the group. **Inspirational motivation** refers to leaders motivating followers by providing meaning and challenging tasks. Leaders arouse team spirit, are enthusiastic and optimistic, and help followers develop desirable visions for the future. **Intellectual stimulation** refers to leaders stimulating innovation and creativity of followers by encouraging them to question assumptions, reframe situations, and approaching old problems from new perspectives. Transforming leaders do not criticize mistakes but instead solicit solutions from followers. **Individualized consideration** refers to leaders acting as coaches or mentors who foster personal development by tailoring to the individual needs and desires of each follower. Transforming leaders provide learning opportunities and a supportive climate for growth.

Transformational leadership has been criticized as leader-centric³⁷, that is, paying too much attention to leaders while downplaying the contribution of followers, who do most of the work. In addition, the focus on the leader can foster dependence in followers and undermine such values as shared decision making and consensus.

In summary, all of the leadership theories being mentioned above have morality as one key attribute of leaders and most of these theories are evident in

³⁴ Ibid., p.15.

³⁵ Craig E. Johnson, **Meeting the Ethical Challenges of Leadership**, p. 230; cf. N. Turner, J. Barling, O. Epitropaki et.al. , "Transformational leadership and moral reasoning", **Journal of Applied Psychology**, 87, (2002): 304-311.

³⁶ B.M. Bass, & B.J. Avolio, **Improving organizational effectiveness through transformational leadership**. (Thousand Oaks, California: Sage Publications, 1994).

³⁷ David V. Day (Ed.), **The Oxford Handbook of Leadership and Organizations**, (NY: The Oxford University Press, 2014): 236.

indicating that moral leaders have altruism or concern for others. Authentic leadership theory presents leaders who have an internalized moral perspective as a guide for their actions. Ethical leadership theory presents leaders who have an internal virtue and/or engage in virtuous acts or behaviors that benefit others. Servant leadership theory, which is founded on altruism, presents leaders who put the needs of followers before their own needs. Spiritual leadership theory presents leaders who has altruistic love and develops a shared vision with members that life has meaning. Transformational leadership theory presents leaders who are guided by universal ethics principles, feel a sense of obligation to the group, are altruistic and making sacrifices for followers.

Altruism, besides being the shared attribute of the mentioned moral theories of leadership, appears to be a universal value, one promoted in cultures in every region of the world. For instance, the Dalai Lama urges followers to practice an ethic of compassion whereas westerners have been influenced by the altruistic emphasis of Judaism and Christianity.³⁸ Altruism or concern for others is even more important for leaders than it is for followers.³⁹ Altruistic leaders exercise influence on behalf of others. Four forms of leader altruistic behaviors are identified by Kanungo & Mendonca (1996): (1) Individual-focused leader altruistic behaviors include providing training, technical assistance, and mentoring; (2) Grouped-focused leader altruistic behaviors include team building, participative group decision making and minority advancement programs; (3) Organizational-focused leader altruistic attitudes and actions include demonstrating commitment and loyalty, protecting organizational resources, and whistle-blowing; and (4) Societal-focused leader altruistic behaviors include making contributions to promote social welfare, reducing pollution, ensuring product-safety, and maintaining customer satisfaction.

The moral theories of leadership also indicate other attributes or conducts of moral leaders in addition to altruism. For instance, authentic leadership theory indicates leaders' use of knowledge of their own self-awareness when interacting with others and their environments. Ethical leadership theory requires wisdom of leaders

³⁸ Ibid., p. 170.

³⁹ R. N. Kanungo & M. Mendoca, **Ethical dimensions of leadership**, (Thousand Oaks, California: SAGE Publications, 1996).

in the demonstration of proper conducts and the promotion of such conducts to followers through a few methods. Transformational leadership theory refers to leaders' wisdom in inspiring and motivating followers, stimulating innovation and creativity of followers as well as fostering personal development of each follower. With regard to conducts, ethical leadership theory is concerned with virtuous conducts of leaders.

A few important attributes of virtues of moral leaders are suggested by scholars and/or philosophers. These include courage, temperance, wisdom, compassion, etc. **Courage** is overcoming fear in order to do the right thing.⁴⁰ Ethical leaders recognize that moral action is hard but continue to model ethical behavior. They refuse to set their values aside to go along with the group, to keep silent when customers may be hurt, or to lie to investors.⁴¹ **Temperance** is the ability to control motions and pleasure. Moderation is the key to practicing temperance. The temperate person takes the middle ground between self-denial and self-indulgence. **Wisdom** draws upon knowledge and experience to promote the common good over both the short term and the long term. **Prudence** is a form of wisdom that enables individuals to discern or select the best course of action in a given situation. Thomas Aquinas argued that this virtue governs the others, determining when and how the other qualities should be used. Foresight and caution are important elements of prudence (practical wisdom).⁴² **Compassion** and related concepts such as kindness, concern, care, generosity and love all refer to an orientation that puts others ahead of the self. Some separate ethical leaders from unethical leaders by an orientation towards others rather than the self.⁴³ Ethical leaders seek power and exercise influence on behalf of followers while unethical leaders put their own self-interest first. Compassion is an important element of altruism.

⁴⁰ Craig E. Johnson, **Meeting the Ethical Challenges of Leadership**, p.79; cf. C. Peterson & M.E.P. Seligman, **Character strengths and virtues: A handbook and classifications**, (Oxford, England: Oxford University press, 2001).

⁴¹ Ibid., p. 81.

⁴² Ibid., p. 83.

⁴³ Ibid., p. 87; cf. J. Howell & B.J. Avolio, "The ethics of charismatic leadership: Submission or liberation?", **Academy of Management Executive**, 6 (1992): 43-54.

The virtues or desirable qualities of leaders are blended to form a strong ethical character, which is called “moral identity”.⁴⁴ Moral identity is defined as a self-schema organized around a set of moral trait associations (e.g. honest, caring, compassionate). The notion is that moral identity motivates leaders to act in ways that demonstrate some responsiveness to the needs and interest of others. Those with moral identity are motivated to take moral actions (e.g. showing compassion) because they want to act in a way that is consistent with their core identity.

2.1.3 Ethical challenges

Ethical challenge occurs when a person has to choose between alternatives that must be considered as right (ethical) or wrong (unethical). The challenge is due to a difficulty in choosing between doing the thing that a person believes is wrong or unethical but the choice of doing is lucrative or is necessary for his/her own sake or for the organization’s sake. There is great pressure for people in the work place to act unethically despite an increase in ethical codes and training. As for workers, according to Nwaeke (2005)⁴⁵, a national study released by the Ethics Officer’s Association in the U.S. claimed that over half of the workers felt some pressure to act unethically on their jobs. About 48 percent reported that they had engaged in unethical or illegal actions during the past years and attributed their actions to workplace pressure. The factors that contributed to pressure to act unethically as reported in the study are mainly related to leadership and workers’ own demand such as poor leadership, poor internal communications, lack of management support, little or no recognition of achievement, need to meet desired goals, excess work load, etc. As for leaders, Burnes & By (2012) present that leadership has been accompanied in the last three decades by an emphasis on ethical values and behavior which, “as the large number of financial scandals have shown, appear to be more honored in the breach than in the observance.”

Ethical challenges or dilemma have been existent in various professional areas including physician, police, lawyer, educator, etc. The examples of physicians’ ethical dilemma include whether to halt life-sustaining therapy because of family

⁴⁴ A. Blasi, Moral identity: Its role in moral functioning. In W. Kurtines and J. Gewirtz (Eds), **Morality, moral behavior and moral development** (pp. 128-139), NY: Wiley, 1984.

⁴⁵ L.I. Nwaeke, **Business and Society**, (Port Harcourt: Davidstones Publishers Ltd., 2005).

demands even they felt it was premature or whether to break patient confidentiality if they know that a patient's health status may be harming others.⁴⁶ For police, the examples of ethical dilemma include whether to disclose police members' bribery or gift accepting or disclose police members' subversion of due process or engagement in the beating of suspects to get confession. The ethical dilemma for lawyers include, for example, whether to make false assertion to court in order to win the case or whether to reveal confidential information relating to representation of a former client by publishing the information in a book for personal gain.⁴⁷ As for educators, the examples of ethical issue include the sexual harassment or abuse of students and the use of forged documents showing educational qualifications to get a job.

As for the most common ethical challenges in the present business environment, these include: overstating business performance, participating in fraudulent activity, non-disclosure and withholding of valid information from stakeholders, disclosure or leakage of confidential information to competitors, false advertisement of a product or service, performing sub-standard work to lower costs, etc.

2.2 Ethical Challenges of Modern Leadership

2.2.1 Description

Ethical challenges of leadership occur when a leader has to choose between alternatives that are considered as ethical or unethical. The leader may have to choose between abiding by moral codes of organizations and breaching moral codes to obtain personal gain. If the leader has value for ethics but chooses to act unethically, this may indicate that the leader's value for ethics is outweighed by the value for seeking own gain, which may be material wealth whereby the wealth is accepted as one indication of leadership's success. The leader may be challenged to choose between doing something for own benefits or for the benefit of others.

⁴⁶ Physicians' top twenty ethical dilemmas- Survey results slide show. <http://www.medscape.com/features/slideshow/public/ethical-dilemmas>. Retrieved on March 16, 2016.

⁴⁷ Charles M. Kidd & Kevin P. McGoff, The Top Ten: A Summary of Recent Professional Liability Cases, http://www.bgdlegal.com/clientuploads/Top_Ten_Ethics_For_Lawyers.pdf, Retrieved on March 16, 2016

Ethical challenges of modern leadership are more extensive than ever. Due to widespread capitalism in the global economy which comes with increasing competitions and societal focus on material wealth, greed continues to outgrow sufficiency and higher profits or bigger material wealth are expected from organizational leaders, especially business leaders. The critics of globalization note that “global capitalism encourages greed rather than concern for others; ethical and spiritual values have been overshadowed by the profit motive, local cultural traditions and the environment are being destroyed in the name of economic growth...”⁴⁸

Ethical challenges of modern leadership can be common to all types of organizations where personal concern of material wealth is a goal. Unethical leaders, both in the past and present, may choose to be fraudulent or accept bribery in order to cumulate their wealth if there are available opportunities. Besides money, ethical challenges of modern leaders in various industries may be involved with people, information, and technology. Leaders may have to choose between expense control and the health and safety interests of employees, especially those in hazardous manufacturing plants. Some modern leaders opt to hire illegal workforces to lower their labor cost; this may be related to the problem of human trafficking. As for information, the advancements in communication technology and the growth of the Internet lead to the choice between allowing the privacy and freedom of workers and maintaining standards which require that company technology use is for legitimate business purposes. Modern leaders who manage listed companies may also be challenged with a choice whether to fully disclose information (which includes the negative news) to public or a choice whether to use inside information for their own benefit in the purchase or sale of the companies’ stock. With regard to other advanced technologies, the example includes biotechnology which creates products that have genetically modified organism (or GMO); the products that may pose potential risks to the environment and wildlife and to human health whereby the industry refuses to label GM foods as such. Ethical challenges of modern leaders in particular industries are also existent such as those in the energy industry where the choice is whether to build a nuclear power plant to generate more energy at the potential risk of nuclear leakage to surrounding community. Other industries that

⁴⁸ cf. Craig E. Johnson, **Meeting the Ethical Challenges of Leadership**, p. 375.

modern leaders are frequently subject to ethical challenges include those in pharmaceutical, liquor, tobacco, etc.

Modern leaders may be challenged to act unethically probably due to their beliefs that ethics and profitability are negative related. That is, ethics does not facilitate but rather jeopardize the profitability of organizations. To be more profitable or to gain more wealth, ethics is to be traded off. Modern leaders are challenged to make decisions which are unethical because they believe that such decisions could help improve organizations' profitability or could help manage problems and improve the status of organizations. The notion that profitability is at the expense of ethics is, however, arguable. Arjoon (2000), for example, attempts to develop a meta-theory of business based on virtue theory. Arjoon indicates that the virtue theory develops a theory of (unconstrained) profits, in the sense that if firms pursued internal goals, the profits that can be realized are greater than under the traditional neoclassical profit or wealth maximizing models.⁴⁹ Examples of internal goals are essentially the cardinal virtues: prudence, courage, self-mastery, and justice and examples of external goals are profits, honor, fame, prestige, and material wealth. Within a virtue theory framework, the pursuit of internal goals are the driving force for external goals. Firms which pursue ethically-driven strategies can realize a greater profit potential than those firms which currently use profit-driven strategies. This work of Arjoon (2000), while emphasizing virtue, does not ignore profits. On the contrary, it indicates that profit is still important for business, although not the most important. The author makes reference to Naughton, Alford and Brady (1996) who noted that "Profits then are not the most important good, but without profits (and other instrumental goods), there can be no other goods and a workplace where people develop has little relevance as the organization would cease to exist." Profits are seen as "apparent" or instrumental goods and not the end or goal of an organization. If profits become the end of an organization, they would prevent an organization from considering or pursuing the more excellent goods of community. The end or goal of organization is "human development within an organizational context where the good of the person is recognized to be intrinsically connected to the good of the

⁴⁹ S. Arjoon, "Virtue Theory as a Dynamic Theory of Business", **Journal of Business Ethics**, 28 (2000): 174.

community”.⁵⁰ This can be understood that human can be developed in their virtues and virtues in organizations can be connected to community virtue.

Modern leaders may also believe that ethics and effectiveness of leaders are incompatible. However, a growing body of evidence shows that ethical leaders are frequently more effective than their unethical colleagues⁵¹ The findings from previous studies referred by Johnson (2015) are for instance: ethical leaders are rated as more promotable and effective; those working for ethical leaders are more satisfied and are more committed to their organizations and their managers- they work harder, are more willing to report problems to management, and are more productive; ethical leadership enhances organizational trust levels, fostering perceptions that the organization is competent, open, concerned for employees and reliable. Such trust leads to improved organizational performance and greater profitability. Ethical leadership fosters an ethical climate, which, in turn, increases job satisfaction and commitment to the organization.

On the organizational level, organizations that show commitment to ethics or clearly state moral codes were found to have better performances than the others.⁵² A study by the Ethics Research Center (ERC) finds that the financial performance of companies stating a commitment to ethics is better than that of companies that did not, based on the annual rankings of large companies published by Business Week.⁵³ The report reveals that the excess value a company provides its shareholders over the total amount of their investments increases significantly when an ethics code is clearly stated by a company. The report found that in the 87 companies where an ethics code was clearly stated, the average market value added (MVA) was 2.5 times larger than the average of companies not mentioning a code of ethics or conduct. For the 47 companies expressing an extensive commitment to an ethics code, the MVA was three times that of the other companies not expressing an ethics code. The U.K. Institute of Business Ethics (IBE) found similar results from a sample of 350 firms

⁵⁰ M. Naughton, H. Alford & B. Brady. The Common Good and the Purpose of the Firm. In J. Donahue & M. Theresa Moser (Eds.). **Religion, Ethics and The Common Good**, CT: College Theology Society and Twenty-Third Publication, 1996, p. 211.

⁵¹ Craig E. Johnson, **Meeting the Ethical Challenges of Leadership**, p. xxi.

⁵² R.M. Fulmer, “The Challenge of Ethical Leadership”, **Organizational Dynamics**, 33 (3) (2004): 307-317.

⁵³ cf. Curtis C. Verschoor, “Corporate Performance Is Closely Linked to a Strong Ethical Commitment”, **Business and Society Review**, 104 (4) (1999): 407-415.

categorized as “ethical” companies. The study being conducted during 1997 and 2001 concluded that there was strong indicative evidence that large U.K. companies with codes of business ethics/conduct produced an above-average performance when measured against a similar group without codes.

2.2.2 Sample Cases of Ethical Challenges

There have been a number of cases which show that when facing challenges, leaders chose to play down ethics resulting in the detrimental effects to their organizations, their stakeholders, and leaders themselves. One example is the case of how Toyota handles the customer safety in the United States. The case shows failure of leaders in handling promptly the problems with concern for safety of their customers. The situation occurred in August 2009, when a Lexus ES crashed in San Diego County, California as a result of unintended acceleration killing the four passengers. Toyota initially denied the problem was a defect. Communication was too slow in coming, incomplete, and even conflicting. Confidence that Toyota knew how to fix the problem was undermined by three recalls affecting more than 9 million vehicles globally around the end of year 2009 and stopping production of eight models. It was reported that while Toyota learned about sticking accelerator pedals in vehicles in Europe in 2008, and installed redesigned pedals in new vehicles that summer, it did not recall affected vehicles on the road or recall U.S. vehicles for several more months. Akio Toyoda, the founder’s grandson became CEO in year 2009 and announced in his first press conference on the crisis February 5, 2010 that he was creating a Global Quality Special Task Force. The task force outlines a tightening of the system of delivering quality. But, as the writer pinpoints “Toyota also must look at its beliefs and constraints about saving face, transparency, the role of disagreements, how authority is challenged on behalf of safety,...” Toyota’s long professed commitment to customer safety was eroded by allowing a crisis to develop.⁵⁴ According to the update on March 19, 2014, U.S Attorney General Eric Holder announced a \$1.2 billion criminal penalty is imposed on Toyota for “hiding

⁵⁴ Gael O’Brien, The Week in Ethics: Five Ways Toyota Can Take the Road Back to Trust, February 7, 2010, <https://theweekinethics.wordpress.com/2010/02/08/>

safety defects from the public,” concluding a four-year investigation of Toyota’s handling of its unintended acceleration issue.

Other unethical examples include: Ford’s defect in the Pinto’s gas tank, false advertising by Nutri-system and Jenny Craig, fraud and illegal cash management by E. F. Hutton, Salomon Brothers’ Treasury auction scandal, fraudulent accounting schemes by Enron, embezzlement practices from Tyco managers, and mutual fund abuses by Morgan Stanley. And most recently, Bernard Madoff pleaded guilty to the biggest investor scheme in history, defrauding investors of billions of dollars.⁵⁵

While there have been numerous cases showing unethical acts of leaders, there have also been cases of staff’s ethical acts in the career that face more and more ethical challenges. The following case presents the nurse who made ethical decision in terms of performing her duty. The case demonstrates an ethical dilemma when nursing staff are taking care of an end stage aggressive prostate cancer patient Mr. Green who expressed the suicide thoughts to one of the nurses and ask that nurse keep secret for him in Brisbane, QLD, Australia.⁵⁶ The ethical dilemma is identified as if the nursing staff should tell other health care team members about patient’s suicide attempt without patient’s consent. In Mr. Green’s case, the nurse chose to share the information of Mr. Green’s suicide attempt with other health care professionals. The nursing team followed the self-harm and suicide protocol of the hospital strictly, they maintained the effective communication with Mr. Green, identified the factors which cause patient’s suicide attempt, provided the appropriate nursing intervention to deal with these risk factors and collaborated with other health care professionals to perfect the further care. The patient was transferred to a palliative care service with no sign of suicide attempt and other self-harm behaviors and passed away peacefully 76 days after being discharged with his relatives and pastors accompany.

In sum, amid the overweight of capitalism in the current global economy, material wealth tends to be an easy measure of leadership’s capacity. This poses the challenge to modern leaders in choosing whether to cumulate their wealth or personal

⁵⁵ Susan P. Mullane, Ethics and Leadership, White Paper series, The Leadership Institute, University of Miami, https://www.bus.miami.edu/_assets/files/executive-education/leadership-institute/ethics-and-leadership.pdf

⁵⁶ Lin Jie, “The patient suicide attempt: An ethical dilemma case study”, **International Journal of Nursing Sciences**, 2 (2015): 408-413.

gain by acting unethically. In other words, leaders have to choose between concern for themselves and concern for others. Besides accepting bribery or being fraudulent for money's sake, modern leaders are exposed to the situation whether to exploit their people (employees), confidential information, or advanced technology to the detrimental effects of those being involved, other stakeholders, or the environment. The unethical behaviors of modern leadership may lead to higher wealth for organizations and for leaders in the short-term. The long-term results, however, may be the negative effects and the unsustainability of the organizations and of leaders themselves. The next chapter will address the Buddhist ethical concepts that cover laity side to bring more understandings about the concepts and their potential use for modern leadership.