Ethical leadership: a must in business term paper example

Business, Company

Introduction

" Never underestimate the other guy's greed." This isn't just a classic line from the 1983 Brian De Palma film Scarface, which was written by Oliver Stone. It also reflects the attitude that has caused the economic disaster we're now clawing ourselves out of. It is safe to say that at least part of the reason for the economic crash of 2008 can be attributed to a lack of ethical conscience on the part of the leaders in business, such as the executives, investment bankers, entrepreneurs, and everyone else whose decisions affected the financial well- being of other people. In this regard, this paper aims to establish that ethical leadership is needed in the modern business marketplace.

What Led to the Financial Crisis of 2008?

Economic growth leads to a rise in the GDP, which in turn leads to a rise in income in the hands of individuals and families. They can spend this on health, education, and lifestyle, which in turn contribute to further economic growth and development.

Economic development refers to the changes in a country’s economy such that there is development in health services, infrastructure, and business competitiveness. It benefits all sections of the society. However, mankind has to decide about how much economic growth is required so that everyone’s needs are satisfied. When man tries to satiate his greed, things can go wrong and everyone can get affected.

M. K Gandhi said, “ The world has enough for everyone's need, but not enough for everyone's greed” (The Hindu, 2014). This quote truly reflects the outcome of the Financial Crisis of 2008. Many people, institutions, and government bodies acted outside the purview of business ethics to satisfy their greed, leading to the worst economic slowdown ever. Business leaders in financial institutions allowed sanction of too many loans to subprime borrowers without all of the diligence checks being conducted. These borrowers had poor credit histories and defaulted on their repayment. People bought houses, borrowing more money than they had the ability to repay. The Increase in demand for houses led to the real estate prices rising, leading to buyers buying real estate at very high prices. When they could not repay the loans, the houses were put on sale in the market, leading to a mismatch in supply and demand. This led to real estate prices crashing down. Similarly, it led to people having assets that were bought at high prices but was worth much less (Reaves, 2009). The mortgages that were used to buy the houses were pooled and converted into fancy named securities by the investment banks. They were called Collateralized Debt Obligations (CDOs). Reputed credit Agencies rated these as high safety credit instruments with triple A ratings, which was too high for them (" The origins of the financial crisis-crash course," 2013). Investors bought these products for high and safe returns without really understanding the product and blindly following the herd. Big companies started giving very high compensation packages to individuals who managed businesses as the economy seemed to be booming, with a lot of consumer expenditure and assets increasing in value. The central bank kept the interest rates low, leading banks, funds and investors to play in risky securities. They took loans to leverage the seemingly stable interest rates and invest in more long-term securities. But then the real estate market collapsed, leading to all related securities becoming worthless. Smaller banks started defaulting on their repayment. People started spending less, leading to lesser consumption, which meant lesser production. In turn, the various industries became affected. Regulators did not take action at the right time. They mishandled the crisis by not anticipating the economic imbalance. They did not raise an alarm when the housing bubble was getting bigger and bigger.

A chain-like effect spread, affecting the world's economy. It began with the real estate crash, which led to the defaults in loan repayment and to securities losing value. These then led to a global financial crisis. The people involved did not behave ethically and were greedy. If some of the people involved would have listened to their ethical conscience, the effects of the crisis could have been mitigated.

Ethical Leadership in Business

The financial crisis is solid proof that a business needs to be run with an ethical conscience and that profits and growth cannot be the only motives. Unethical business behavior ultimately leads to monetary losses, the loss of reputation, and losses for the society.

Ethics means a person's judgment on whether an act is right or wrong. But how does a person decide on whether what he is doing is right or wrong? He might take an action that would earn handsome profits for his company and himself but lead to the joblessness of some employees. Is this action right or wrong? As humans, we should impose certain restraints on ourselves from a legal and moral standpoint. These include acknowledging that all humans are equal; seeking only as much freedom as we think others should get; keeping our promises; not expecting others to act the way we will not; sharing common goods; understanding that arbitration might be required in some cases; and appointing judges who are fair. People should follow deontological ethics. This means that people should be concerned with their actions and not with the consequences. They should do the right thing because it is right, and they should avoid the wrong things because they are wrong. They should not worry about other things. All individuals in an organization -- from the most junior levels to the leadership levels -- should follow this in order to avoid negative consequences to the economy and the society. If all individuals and organizations live by these rules, everyone will be benefited and society will become a better place to live in. Conversely, there would be conflicts, violence, and anarchy.

Apart from that, it is important to have ethical leadership in businesses, which means that the business leaders must have good character. They should have the right values and exemplify ethical behavior in business matters. The leader has to be ethically mature and model the ethical advice given to the employees. The leader has to influence the employees through proper conduct and moral actions (Monahan, 2012).

Ethics are important in businesses and marketplaces. It is important for investors, employees, customers, business leaders, and other stakeholders. Ethical business depends on the leadership. Leaders influence employees either positively or negatively; therefore, business leaders should ensure that organizational values are ethical. This can be done best through their own behavior and actions. If leaders act ethically, most employees will follow them and lawsuits and out-of- court settlements can be avoided. If unethical behavior is prevalent in an organization, then there are bound to financial and other types of losses. Leaders need to constantly reiterate ethical behavior; otherwise, there will be thefts, ineffective information flow, deterioration in relationships and loyalty, and low productivity.

If we look back in history, workers used to work in extremely unsafe conditions and if they lost their limbs, they would be removed from the job, leading them to poverty. Children used to slave in factories. In this regard, leaders have taken the initiative to provide workers having safety gear and insurance. Laws that bar factories from employing children have been developed. Leaders have initiated these. These business decisions taken are taken from an ethical conscience and have helped in developing the society. (Sims, 2003). In making decisions, ethical business leaders should think not just about the business growth but also about the employees, customers, environment and the society as a whole.

Normative Ethics

It is important for an organization to set up Normative Ethics. It means that a set of norms or standards are set up for acceptable behavior and practices. Every action taken by the employee or business owner needs to be compared to the established standards set in order to evaluate whether it is ethically correct or not (Sims, 2003). For example, an employee might see his peer indulging in wrong practices or an employee might be given a gift by a client for certain actions. However, the employee might not know how to handle such situations. In this regard, the leaders of the company should have documented policies; procedures, and a code of ethics for the organization. The employees and business owners should then be encouraged to refer to these before making a decision or taking an action. In addition, such ethics must be ingrained into the company's culture such that they become the " norm" rather than the exception for the employees. With organizational leaders strongly espousing and modeling ethical behaviors, acting in ethical ways will become second nature or an " automatic response" for the employees.

Utilitarian Ethics

Utilitarian Ethics is a school of thought, which says that the good of the society is more important than the pleasure of one or a few persons. Jeremy Bentham and John S. Mill who developed this thought believed that organizations should function such that the greatest good is obtained for the greatest number of people possible. Companies need to follow this as the benefits for society and environment is more significant than the profits for a few. Business leaders should follow moral duties that are beyond serving their own interests (McLachlan, 2009). For example, there are various areas that companies can contribute to. Intel, the computer chip manufacturer, hosts a Talent Search to promote technology and engineering among students. The company invests in education programs to encourage girls and students from the underprivileged sections of the society. Companies have the manpower and the money to invest in socially relevant causes, and the leaders should do so as this will benefit the society as a whole. These will also show that these leaders and organizations are also a part of the society.

In other words, companies should not be concerned solely with growing their business and earning profits; rather, they should be more concerned about the well-being of their employees, customers, and shareholders. In addition, they should serve the communities where they operate as a way of fulfilling their social responsibilities. Although these things require them to give, what they get in return is actually much more – their employees’ and community’s respect, their customers’ loyalty, and their shareholders’ support.

Companies should have a Code of Ethics so that employees and stakeholders would know the company’s moral duties, and would be able to follow them. A Code of Ethics is a record of morally acceptable behavior by the company. It is based on the value and principles that the organization stands for and believes in. It is a basis for solving ethical conflicts and states the consequences for unethical behavior. It is important to logically organize these ethics and present them to all the members of the organization. The Code of Ethics should be accessible to all and should have action statements that implement the values and principles of the organization. It should also have guidelines about whom the various regulations are applicable. It should provide information on the different aspects of ethical behavior, such as integrity with the customers, integrity within the company, dealing with confidential data, dealing with competitors, dealing with the government, conflict of interests, and dispensing of correct information in promotional and marketing material. The business leadership team should regularly review it and update it so that it reflects the current times. For example, in earlier times, data confidentiality was not such an important ethical issue. However, with technology and the Internet being used by all for all kinds of transactions by people, there is lot of personal data floating in the Internet and the servers. In this regard, it is important for organizations to have proper data policies in place. They need to ensure that bank account details and credit card details are not stored anywhere. Organizations need to have policies such that the privacy of personal data is not compromised. The organization must provide its employees with refresher sessions so that employees are aware of it and are updated on the Code of Ethics. New employees can also be updated on the Code of Ethics.

Conclusion

Businesses have to deal with a lot of conflict of interest. There is money, reputation, and competition involved. The individuals associated with the business can get carried away by the lure of profits and power. In this regard, leadership should set expectations of ethical behavior in both visible and invisible ways. The visible aspect of leadership is the way that the leader works, the way he treats employees and competitors, and his behavior in public. His statements and his actions are part of the visible leadership. It is essential that he displays the organization's ethics in all these actions so that people will know what the company stands for. The invisible part of ethical leadership is in the leader's character and attitude. He needs to follow the code of ethics in his decision-making process. He should have inculcated the set of values and principles that the organization follows so that he would be able to make ethical decisions in tough and easy situations (" Ethical Leadership," n. d.). A leader leads by example, so if a business leader uses the company's office supplies for personal work, then his employees will likely follow suit. Leaders need to strictly take action against non-compliance by the employees. If the leadership team overlooks unethical behavior, employees will be tempted to put their interests first. In turn, if an employee engages in unethical practices, then the organization can face legal consequences.

References

Ethical Leadership (n. d.). Community tool box. Retrieved from

McLachlan, J. A. (2009). The right choice: making ethical decisions on the job. Toronto:

Pearson-Prentice Hall. ISBN 978-0-13-206496-5

Monahan (2012). A review of the literature concerning ethical leadership in organizations. Emerging Leadership Journeys. Retrieved from

Reavis, C (2009, April 10) The global financial crisis of 2008: the role of greed, fear, and

oligarchs. (2012). Retrieved from

Sims, R. R (n. d.) Ethics and corporate social responsibility. Greenwood Publishing

Group.

The Hindu. (2014). Quotes. Retrieved from http://www. thehindu. com/todays-paper/tp-in-

The origins of the financial crisis - Crash course (2013, May) The Economist.

Retrieved

schoolsbrief/21584534-effects-financial-crisis-are-still-being-felt-five-years-

article