

Ethical Leadership, Part 2: Best Practices

This video introduces the behavioral ethics concept known as best practices at an organization. Psychological research provides guidance as to how leaders can create a workplace culture that encourages ethical behavior by employees. This video gives tips to leaders about establishing, communicating, and maintaining an effective ethical culture in an organization. In this video—youtu.be/MI91mQkEw7o—social scientist Barry Schwartz suggests two things very much worth discussing in this context. He notes that firms should identify an ethical purpose for their existence—a non-zero sum game. He believes that employees will act more ethically if they feel that they are part of an organization that is providing goods or services that make the world a better place. Also, while *Best Practices* recommends the use of realistic goals and modest rewards in setting incentives for employees, Schwartz goes slightly further and recommends minimal use of incentives. He believes that incentives are almost always gamed by employees.

This video is the second of a two-video package that addresses how to be an effective ethical leader. Leaders must (1) act ethically themselves (see *Perilous at the Top*); and (2) know how to create an effective ethical culture (this video, *Best Practices*).

To learn about related behavioral ethics concepts, watch *Incentive Gaming* and *Moral Imagination*.

The case study on this page, “The Costco Model,” illustrate how a company can promote positive treatment of employees and, in turn, benefit from leading with the best practices. For another case study about best practices in action, read “In-FUR-mercials: Advertising & Adoption.” For a case study about the potential negative effects of setting incentives for employees, see “Gaming the System: The VA Scandal.”

Behavioral ethics draws upon behavioral psychology, cognitive science, evolutionary biology, and related disciplines to determine how and why people make the ethical and unethical decisions that they do. Much behavioral ethics research addresses the question of why good people do bad things. Many behavioral ethics concepts are explored in detail in *Concepts Unwrapped*, as well as in the video case study *In It to Win: The Jack Abramoff Story*. Anyone who watches all (or even a good part) of these videos will have a solid introduction to behavioral ethics.



Discussion Questions

1. Why do you think studies show that no single factor has a bigger impact on the ethicality of a firm’s culture than the personal examples set by firm leaders?
2. Why do you think the evidence tends to show that it is more effective to have an organizational code of ethics drafted with the help of employees than one drafted by outside experts?
3. How can leaders best communicate the firm’s ethical norms to employees?

4. Why do levels of cleanliness and lighting in a building affect the ethicality of employees actions, do you think?
5. If a leader asked you: “How do I create an ethical culture in my firm?”—what are the first three things you would tell him or her?
6. What advice about incentive systems would you give leaders who wished to create an ethical firm culture?
7. What do you think is the most important attribute of an effective ethical leader?
8. When leaders ask: “What does our organization stand for?”, what do you think the answer should be?
9. Have you ever felt that your judgment was affected by the nature of your office space?

Additional Resources

Cropanzano, Russell, and Fred O. Walumbwa. 2010. “Moral Leadership: A Short Primer on Competing Perspectives.” In *Managerial Ethics: Managing the Psychology of Morality*, edited by Marshall Schminke, 21-52. New York: Routledge.

Heffernan, Margaret. 2011. *Willful Blindness: Why We Ignore the Obvious at Our Peril*. New York: Walker Publishing Company.

Keltner, Dacher, Carrie A. Langner, and Maria Logli Allison. 2006. “Power and Moral Leadership.” In *Moral Leadership: The Theory and Practice of Power, Judgment, and Policy*, edited by Deborah L. Rhode, 177-194. San Francisco, CA: Jossey-Bass.

Margolis, Joshua, and Andrew Molinsky. 2006. “Three Practical Challenges of Moral Leadership.” In *Moral Leadership: The Theory and Practice of Power, Judgment, and Policy*, edited by Deborah L. Rhode, 77-94. San Francisco, CA: Jossey-Bass.

Price, Terry L. 2006. *Understanding Ethical Failures in Leadership*. New York: Cambridge University Press.

Rhode, Deborah L. 2006. “Introduction: Where is the Leadership in Moral Leadership?.” In *Moral Leadership: The Theory and Practice of Power, Judgment, and Policy*, edited by Deborah L. Rhode, 1-54. San Francisco, CA: Jossey-Bass.

For resources on teaching behavioral ethics, an article written by Ethics Unwrapped authors Minette Drumwright, Robert Prentice, and Cara Biasucci introduces key concepts in behavioral ethics and approaches to effective ethics instruction—including sample classroom assignments. The article, published in the *Decision Sciences Journal of Innovative Education*, may be downloaded here: [“Behavioral Ethics and Teaching Ethical Decision Making.”](#)

A detailed article by Robert Prentice with extensive resources for teaching behavioral ethics, published in *Journal of Legal Studies Education*, may be downloaded here: [“Teaching Behavioral Ethics.”](#)

An article by Robert Prentice discussing how behavioral ethics can improve the ethicality of human decision-making, published in the *Notre Dame Journal of Law, Ethics & Public Policy*, may be downloaded here: "[Behavioral Ethics: Can It Help Lawyers \(And Others\) Be their Best Selves?](#)"

A dated but still serviceable introductory article about teaching behavioral ethics can be accessed through Google Scholar by searching: Prentice, Robert A. 2004. "Teaching Ethics, Heuristics, and Biases." *Journal of Business Ethics Education* 1 (1): 57-74.

Transcript of Narration

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"Ethical leaders both act ethically as an inspiration to others, and communicate and manage their organization's culture so as to promote ethical action. So how does a leader effectively communicate and manage an organization's culture to create ethical action?"

Well, leaders must establish their organization's ethical norms. They must ask: "What does our organization stand for?" They should set high expectations. Leaders must also effectively communicate to others both the contents of those ethical norms and the intensity of the organization's commitment to upholding them. The careful drafting, with input from others in the organization, of a code of ethics can be helpful.

Then, leaders must implement employment practices consistent with these overall goals. Of course, they must hire good people and punish those who violate the organization's ethical norms. Just as importantly, they must reward those whose conduct embodies the organization's ethical standards.

Leaders must also be aware of the cognitive and psychological shortcomings, situational factors, and social and organizational influences that can cause people to make irrational and self-defeating decisions in all areas of their lives. It turns out that leaders can use psychological knowledge to nudge employees to act more ethically.

So, Leaders should keep in mind:

- People are more likely to steal from their firms or mistreat their firms' customers if they feel as though they themselves have been mistreated. So treating employees fairly is an extremely critical part of cultivating an ethical workforce. Leaders must explain the reasons for taking the actions that they take, for that helps employees accept decisions even if they disagree with them.

- Also, studies show that employees are more likely to act unethically if they are exhausted, so to overwork employees is to court disaster.
- Relatedly, people tend to act less ethically if they are under acute time pressure, so this is another reason to be reasonable in placing demands upon employees. Professors Margolis and Molinsky studied several organizations and found that some wisely built into their processes times for pauses and second looks.
- Remember, employees naturally focus upon goals that are set for them by superiors. If unrealistic goals are set, especially those that carry punishments for failing to meet them or extravagant rewards for exceeding them, then employees will tend to lose focus on the ethical aspects of their actions. They will concentrate entirely on meeting the goal. Realistic goals and moderate rewards for meeting them are a good combination.
- You may not have considered this, but the evidence is clear that people are more likely to act unethically if they find themselves in a dirty or cluttered workplace or if they find themselves in a dimly lit space. Cleanliness and good lighting can go a long way toward fostering ethical behavior.
- Finally, studies show that employees will tend to act more ethically if they are frequently reminded of the importance to the firm of living up to its espoused values. Effective leaders create legends that illustrate commitment to the firm's culture. For decades, accounting firm Arthur Andersen was the most admired accounting firm in the world, in part because of its employees' belief in the origin story of how founder Arthur Andersen told a large client that there was "not enough money in Chicago" to induce him to fudge the numbers. Unfortunately, the leaders of Andersen forgot this lesson and started emphasizing revenue over character, which is why the firm no longer exists.

While there is no single correct way to create and foster an ethical organizational culture, committed leaders will benefit by keeping these points in mind, and by remembering that all their actions send messages."