

Ethical Leadership and its Impact on Corporate Governance

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ABSTRACT

Ethical leadership plays a critical role in shaping corporate governance practices, ensuring that companies are managed and controlled in a manner that is not only efficient but also ethically sound. This paper examines the interplay between ethical leadership and corporate governance, emphasizing how ethical leadership principles can enhance corporate reputation, improve employee morale and engagement, and foster trust among stakeholders. It also discusses the challenges and barriers to implementing ethical leadership in corporate governance, supported by real-world case studies. The findings suggest that ethical leadership significantly contributes to sustainable business practices and long-term organizational success.

Keywords: Ethical Leadership, Corporate Governance, Corporate Social Responsibility, Stakeholder Trust, Organizational Culture.

INTRODUCTION

Ethical leadership is essential for creating a governance framework in which business and legal entities can successfully manage, monitor, and regulate each other in a complex, interconnected operational infrastructure. Corporate governance is a method to establish a structure in companies to direct and control the company in an efficient manner, which is focused on ethically sound management. It is the continuing connection or partnership between shareholders, stakeholders, boards, and management to establish and fulfill organizational objectives within the bounds of administrative and legal regulations. In fact, corporate governance practices have been regarded as one of the key components in increasing economic development and business receptivity to different types of stakeholders [1]. At the end of the twentieth century, corporate governance was foremost, as a large number of agencies used to focus on governance issues. Stakeholder attendance in setting up suitable governance methods is not the only critical aspect, but utilizes the power to identify ethically sound governance procedures. The current essay aims to develop ethical leadership related to corporate governance issues. For this analysis, the paper is divided into various sub-sections, either to evaluate the concept of corporate governance or to compare the specified vertices of ethical leadership and corporate governance. After understanding these concepts, efforts are made to delve deep into the relationships associated with corporate governance and accompany the discussion to seek assistance from the models. Furthermore, formulations are used as the primary method, with data being collected from secondary sources only [2, 3].

THE ROLE OF ETHICAL LEADERSHIP IN CORPORATE GOVERNANCE

In contemporary business policies, corporate governance continues to occupy the focus of attention. The researcher and practicing managers are primarily interested in the establishment of ethical governance that centers on maintaining the financial and non-financial health of the firm. With differences in legal systems, finance, and business practices from one country to another, the behavior or culture of an individual, particularly at the highest level of decision making, plays a quintessential role. Ethical leadership is understood as the catalyst for setting the tone within the organization, which eventually shapes governance and management actions and controls. Essentially, ethical leadership plays a significant role in complementing the entire governance mechanism and reinforcing the decisions made

[4]. Considering the normative perspective, corporate governance could be expressed as a moral obligation of the organization's top management. In this context, ethical leadership is discussed in terms of the moral reasoning, behavior of the organization's top management in relation to the organization's stakeholders i.e., customers, employees, creditors, society, and others. Throughout this perspective, the decisions of the organization, guided by the principles of ethical governance, are aligned with the legal rules, but not merely based on the consideration of legal regulations. The decisions are guided by the principles that are framed by the moral reasoning of the ethical leadership that legitimizes the social existence of the organization. Each functional area of the organization, under ethical governance, is committed to pursuing the quality objectives, monitoring the performances, and delivering the trust to the stakeholders. Organizational culture of the ethical governance maintains the quality system as though the top management lives by the same system. Consequently, the organization's effectiveness is realized in an efficient manner [5].

DEFINING ETHICAL LEADERSHIP

Among the various forms of leadership, ethical leadership is considered as leadership that upholds ethical standards in promoting morality and justice in decision making in organizations. Ethical leadership can be defined as the display 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. From this definition, ethical leadership can be seen as a leader's ethical traits are manifested in this type of leadership – namely, honesty or integrity, trustworthiness, fairness, equity, justice, and respect for others. Some researchers argue that the optimum combination of ethical frameworks and ethical theories in defining ethical leadership should be the character-based, teleological ethical frameworks, namely virtue ethics or ethical egoism [6]. Defining Ethical Leadership As for the prominent attributes and behaviors of ethical leadership, indeed, the list can be exhaustive involving motivations, personal integrity or character, relational dynamics, the way of guidance and inspiration or rewards. In general, however, some of those have gained considerable prominence in the extant ethical leadership literature. With regard to ethical theories, each perspective adopts one or several ethical theories in defining ethical leadership but from different leaders' perspectives and caused by different leaders' behavior or action. Consequently, delineate what ethical leadership is from four clusters of leaders. The first cluster conceptualizes or conceives the ethical leadership as moral leaders having altruistic motives. This observation comes from a moral philosophical perspective in leaders as normative persons who prioritize the most important things. Some of them (usually are the advocates of Kantian ethic) believe that what leader's intentions (teleology) is paramount. In this cluster, several authors such as declare that ethical leaders are those doing the right things out of their passions for the right, not just to be perceived as "ethical" [7].

PRINCIPLES AND CHARACTERISTICS OF ETHICAL LEADERSHIP

Ethical leadership is one of the modern approaches to leadership that has recently been attracting the attention of scholars and practitioners. It is characterized by a set of principles, values, and habits that are upheld to achieve specific goals within a given context. Ethical leadership exudes positive traits including honesty, integrity, accountability, and transparency. It brings about increased effectiveness of corporate governance practices leading to improved performance in organizations. This section discusses the principles and characteristics of ethical leadership and their relationship with corporate governance [1]. One of the key principles of ethical leadership is honesty or truthfulness. A leader who possesses honesty and truthfulness is capable of enhancing high ethical standards within and outside the organization, eventually encouraging employees to act in similar ways. A core value integral to ethical behavior, especially in leadership roles, is integrity. This is well understood as the consistent and regular behavior in adhering to principles, values, ethics, and the organizational culture adhered to, either expressed in norms socially, customs, and values, and the organization itself. Managers or corporate leaders who have integrity will have a direct impact on the behavior of employees. Consequently, such leaders can encourage employees to also conduct themselves professionally, both within the organization and outside it. Managerial conduct fostering organizational change will have a strong influence on the character of employees and their values, thus reducing the likelihood of behavior contrary to ethical rules [8].

BENEFITS OF ETHICAL LEADERSHIP IN CORPORATE GOVERNANCE

Ethical leadership has recently become a highly relevant issue in corporate governance. Not only investors, but a diverse range of stakeholders have shown a growing interest in the ethical conduct of company leaders. For effective corporate governance, it is crucial to incorporate ethical leadership determinants in the senior management of a firm. Ethical leadership in senior management ensures reckless criminal activities are avoided. The objective of this paper is to investigate the inclusion of ethical leadership determinants in the responsibilities of senior management. The findings of this paper offer

informative advice to senior management on how to efficiently incorporate ethical leadership in corporate governance to gain a competitive advantage in corporate strategy, whilst avoiding losing of personal wealth in the form of fines and personal remuneration [9]. The findings suggest that incorporation of ethical leadership in corporate governance creates a plethora of rewards; the most significant reward being the reestablishment of trust between stakeholders, enhancing stakeholder value and subsequently corporate shareholders' wealth. Ethical leadership sets a tone of openness and honesty, moving away from mismanagement for personal benefits, which may have a devastating knock-on effect on the economy as a whole, and leads to an increase in the national rate of unemployment. Although seemingly ethical leadership is at a cost, in fact, it has the ability to significantly reduce the costs associated with negative commercial impacts. An ethical approach ensures that operational risk is reduced, and sustainable business practices are implemented. In consequence, a company's operational risk is reduced and may lead to the theoretical formulation of advantageous trade-offs among senior management. Ethical leadership acts as a preventative control and leads to corporate benefits. Some senior managers do adopt an ethical approach and bring with them a plethora of rewards and benefits. Ethical imperatives may have a negative impact on the financials of firms adopting conventional trading arrangements [10].

ENHANCED CORPORATE REPUTATION

The reputation of an organization is sometimes linked to how the leader conducts or carries out his/her responsibilities, especially when it comes to making difficult decisions. Research has concluded that an increased reputation for an organization has a direct relationship with the sustainability and success of the organization. Studies have indicated to us that there is a link between perceived leadership, corporate social responsibility, and a leader's perceived image, which then influences the brand image of the organization. With the leader being the driving force and having high beliefs in corporate governance, the stakeholders of an organization will be influenced, resulting in a transformation of better corporate performance. Additionally, being an ethical organization or having an ethical image, which is driven by the leader, demonstrates that the organization is also responsible for stakeholders, including the public, for which corporate reputation is greatly valued. Favoring the proper management of the system of organization, it is important in the perspective of the effectiveness of influencing the success of the organization [11]. Organizations providing ethical leadership to stakeholders are more likely to earn and maintain a good reputation and increase customer loyalty. Several stakeholders, including investors, take organizational reputation into consideration when making decisions and have been shown to be a significant factor contributing to a firm's worth and competitiveness with the market. Additionally, research has found that a good corporate reputation is easier to identify, and more respect is given in terms of the quality of goods and services of the corresponding organization, as well as the brand image. Furthermore, research has noted the transformation of stakeholder beliefs generated by good corporate governance, thus resulting in an increase in organizational performance and the achievement of superior quality outcomes. Ethical leadership is important as it has the ability to create more supportive and ethical behaviors within individuals, create trust within relationships, and generate respect amongst employees while ensuring individual growth and, as a result, better corporate outcomes [12].

IMPROVED EMPLOYEE MORALE AND ENGAGEMENT

Another impact of ethical leadership on corporate governance is that it provides a positive work environment that will ultimately lead to getting the most out of employees. An environment is created in which employees are not unduly hindered or driven to compromise their personal values within the company. Thus, employees are more creative and engaged, leading to tangible benefits. This leadership paradigm is another catalyst for desirable corporate governance outcomes. Ethical leaders understand that stewardship is the act of being the person who performs daily tasks and who thrives. According to a survey conducted, 99.7% of respondents believe that managers who adhere to principles will definitely lead their companies to succeed in the long run [13]. Through the application of ISL, companies can focus on human well-being and available resources equally. This is because the most precious and least used - honor and contribution of human beings, in the midst of volatile, uncertain changes such as industry 4.0. Leaders who model appropriate behavior, despite the turmoil, can help reduce employee anxiety and increase loyalty. This is because models of ethical leaders can make them more inspired by work and prevent them from looking for other jobs. This phenomenon caused by ethical leadership is employee engagement, which is a company that is serious about increasing employee commitment to increase shareholder value and decrease societal costs. Profit maximization is an unreasonable goal, but a measure or reflection of good business practice [14].

CHALLENGES AND BARRIERS TO ETHICAL LEADERSHIP IN CORPORATE GOVERNANCE

An important issue in addressing ethical leadership is fully exploiting the role of this type of leadership in governance. In particular, ethical leadership can change corporate governance, create various benefits, and attribute greater responsibility to the administration. The literature identifies overlapping attitudes and various roles, challenges, and obstacles to ethical leadership. These can be due to multiple factors, including competing interests, values and beliefs, norms, and expectations, which create difficulties in implementing an ethical approach to corporate governance. Broader agreements would allow the ability to achieve a comprehensive overview of the choice of ethical leadership as responsible leadership, given that ethical leadership is an "incomplete" theory [15]. The challenges to be faced in an ethical leadership perspective may include the fact that, as a consequence of ethical behavior, management may face difficulties in the implementation of their strategic management plans. Managers who believe in ethical considerations will expect substantial resistance to change. This may or may not represent the main barrier, not out of fear of danger, but by the parties to individual value. Finally, leaders must be fully aware of the seriousness of their leadership position and ethical dilemma associated with certain choices. The implications for corporate managers, involvement in the establishment of corporate policies, practical implementation, and compliance with the requirements of a guide to ethical leadership are significant for stakeholders. The recruitment of verified professionals may help to reduce such difficulties and set, monitor, and distribute a very positive ethical tone, in particular the top and the managers concerned [16].

CASE STUDIES AND EXAMPLES OF SUCCESSFUL ETHICAL LEADERSHIP IN CORPORATE GOVERNANCE

There are some real-world case studies of companies which have shown strong corporate social responsibility (CSR) and ethical leadership. One poignant example of ethical leadership comes from Nokia, which held 36% of the market for smartphones in 2007. The company had the economic power to continue leveraging its position for sustainability. However, their strategic decision to invest in their CSR agenda suffered. Nokia fine-tuned its corporate social responsibility strategy in 2013. The focus of the company is to operate transparently and manage risks. Another example of ethical leadership and its impact on corporate governance is Broadridge Financial Solutions, a US-based company [17]. McDonough (2011) states that by continually implementing their ethical policy and code of conduct for employees, they earned a nomination for the 100 best corporate citizens by Corporate Responsibility Magazine. The company has in recent years been one of the market leaders in stockholder communications and business process outsourcing specifically for financial services. A third example of effective implementation of corporate social responsibility and ethical leadership became operational in February 2011 when the European division of SCA changed its name to SCA and became a united company. The name change was the last stage in an integration process begun in 2005 to merge and harmonize businesses under one operational identity. Ethical leadership has a positive impact on stakeholders and in particular the employees [18].

CONCLUSION

Ethical leadership is indispensable for effective corporate governance, providing a moral compass that guides decision-making processes and organizational behavior. By integrating ethical principles into leadership practices, companies can build trust with stakeholders, enhance their reputation, and achieve sustainable success. Despite the challenges in implementing ethical leadership, its benefits—such as improved employee morale, engagement, and corporate performance—are substantial. Case studies of companies like Nokia and Broadridge Financial Solutions demonstrate that ethical leadership can lead to superior outcomes and set a positive tone for corporate governance. Ultimately, ethical leadership is not only a moral obligation but also a strategic advantage in today's business environment.

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