

ETHICAL LEADERSHIP

What does it mean to be an effective ethical leader? It means at least two things. First, effective ethical leaders act ethically as an inspiration to others. No single factor has a bigger impact on the ethicality of firm culture than the personal examples set by firm leaders. Second, they communicate and manage their organization's culture so as to promote ethical action by subordinates.

Most adults do not have an adequate moral compass and therefore look outside themselves for guidance in moral dilemma situations. It is the leaders of their organizations to whom they primarily look. Importantly, leaders' unethical actions are copied by subordinates even more readily than their ethical actions. Although it is especially important for leaders to act ethically, they are often particularly vulnerable to acting unethically. Studies show that most people have high opinions of their own character and do not realize the substantial gap between how ethical they think they are and how ethical they truly are.

Believing that we are moral people and will automatically do moral things, many of us act with little self-reflection and thereby often make ethical mistakes. Overconfidence renders leaders particularly vulnerable because they have typically had great success in their lives. Another behavioural factor that particularly affects leaders is the "instant entitlement bias."

Studies show that if people are told that they are part of a team and that they should divide up resources allocated to the team, they tend to divide the resources equally among team members. But if they are told that they have been selected as the "leader" of the team, they tend to keep a much larger share of the resources for themselves. In real life, leaders often fall victim to the instant entitlement bias, as can be seen in the lavish lifestyles often lived by corporate bigwigs.

A study by Professors Flynn and Wiltermuth demonstrated that people at the centre of social networks, such as CEOs, are more likely than others to mistakenly believe that other people agree with them regarding what is an ethical course of action. It is often shocking how top corporate officers and high government officials come to the view that the rules that apply to everyone else do not apply to them.