Leadership, Decision-Making, and Ethical Behavior

Dr. Emmett Emery, Sr.
Emery Consulting Firm, LLC
Wesley Chapel, FL. 33543
USA

Abstract

Ethical principles applied in organizations can broaden individual and corporate priorities beyond profit and shareholder enrichment. Ethical factors may influence leaders to make sound decisions to protect the organization for unethical behavior. The purpose of this study was to examine if a correlation exists between the independent variables leadership and decision-making, and the dependent variable ethical behavior. Drucker’s theory of management served as the theoretical framework. Data collection involved 2 survey instruments, the Authentic Leadership Questionnaire and the Moral Potency Questionnaire from 98 participants from retail businesses in the southwestern United States. The model as a whole was able to significantly predict ethical behavior (F (2, 95) = 12.79, p<.01), $R^2 = .21$. However, none of the individual predictors was significant. The existence of multicollinearity between 2-predictor variables offers a plausible explanation for this phenomenon. Therefore, these results should be viewed with caution.

Keywords: decision-making, ethics, ethical behavior, leadership, unethical behavior, workplace ethics

1. Introduction

The Leader of organizations has a responsibility to uphold the highest standards of ethical conduct. Upholding the highest standards of ethical conduct involve relating ethical behavior with a leader’s ability to make sound decisions. A focus on short-term profit as an exclusive measure of retail business success has eroded trust and opened the door for unethical behavior (Lin-Hi & Blumberg, 2012). Leaders in 41% of U.S. organizations do not view unethical behavior as a risk to their business (Ethics Resource Center, 2012a, 2012b). The theory underlying this research is Drucker’s (1960) theory of management. The theory of management involves two ethical assumptions regarding leadership and decision making. The first ethical assumption is that establishing priorities in with a concentration on major areas will produce outstanding results. The second ethical assumption is that making effective decisions will positively affect the workplace (Toubiana & Yair, 2012). The purpose of this quantitative correlation study is to help organizational leaders create strategic plans to improve the decision making process involving ethical behavior.

2. Literature Review

Leadership

Leadership determines the situation, the need and the personality of employees and the culture of the organization (Drucker, 1960). The leader’s job is to create the desired future for a company or organization (Toubiana & Yair, 2012). Leaders need to develop an intimate involvement with the strategic directions of their company (Toubiana & Yair, 2012). The goal for leaders is to strive to achieve a competitive advantage based on a derived theoretical framework and propositions (Deshpande, 2012).

Drucker’s assumption and belief were assumptions about an organizational environment that defined what organizational leaders consider meaningful results (Deshpande, 2012). Drucker’s assumptions and beliefs about care competencies define where an organization must excel to maintain an effective leadership (Harolds, 2011). Businesses and the leaders, who manage them, have a purpose that transcends the individual ethics of the capitalist ideology, which are self-interest and profit maximization (Peters & Reveley, 2014). The general workplace setting can be a learning environment (Van der Zwart, Zwietering, Teunissen, van der Vleuten, & Scherpjber, 2011).
Communication should be a focus point in the workplace (Welch, 2012). Communication, as described by Drucker (1960), is an important part of leadership that involved making sense to each other (Harolds, 2011). Communication between leaders and employees is not effective unless communication between leadership and management is positive (Drucker, 1960). Leadership and management must go hand in hand; workers need their managers not just to assign tasks, but also to define the purpose (Drucker, 1960). Leaders must organize workers, not just to maximize efficiency, but also to nurture skills, develop talent and inspire results (Peters & Reveley, 2014).

**Ethical and Unethical Behavior**

For many business leaders, the best solution to an ethical dilemma is to have (1) a predetermined role, (2) objective principle, and (3) principle reformulated as corporate policy (Yammariro et al., 2013). Drucker (1960) described ethical behavior as a reflection process and a communal exercise that concerns the moral behavior of individuals based on an established and expressed standard of individual values (Bishop, 2013). Ethical behavior was an absolute requirement for all organizational leaders (Digrande et al., 2011).

Leaders of the organization have the responsibility to uphold the highest standards of ethical behavior (Li & Madsen, 2011). Responsibility implies that corporate leaders are most at fault for ethical or unethical company behavior (Stanaland, Lwin, & Murphy, 2011). Drucker (1960) argued that there are no such things as business ethics, but what does exist instead is casuistry (Pot, 2011). In an article written by Drucker titled “The Matters of Business Ethics.” Drucker imputes contemporary business ethics as a form of what he considers casuistry. Contemporary business ethics has a special code of ethics for people in a position of power, and the special code of ethics that apply to the people in a position of power who are required, or expected, to do certain things in the name of social responsibility (Laschinger, Finegan, & Wilk, 2011).

One must expand the analysis with different types of responsibility, responsibilities such as legal, corporate, and managerial (Stanaland et al., 2011). Stanaland et al. (2011) argued that corporate social responsibility (CSR) indicates that firms may choose responsibilities most relevant to them. Stakeholder responsibility implies that other parties have a responsibility toward the organization, and social responsibility is the belief in the notion of shared responsibility for the common good. Corporate executives are not free to engage in social responsibility. Dacin et al. (2011) stated that social responsibility of a business is to use its resources and engage in activities designed to increase its profit. In an effort to increase profit, the business must stay within the rules of the game, which is engaging in open and free competition without deception or fraud (Dacin, Dacin, & Tracey, 2011).

Leaders should take responsibility for the same code of ethics as employees and should not reduce their unethical activity to the employees or cost-benefit analysis (Malik, Naeem, & Ali, 2011). Drucker (1960) stated one ethic should apply to all situations regardless of status. Contemporary authors in business ethics, who advocate a return to ethical principles as a foundation for leaders making an effective decision, communicates the cause and effects of inadequacy of traditional principle-based (Kossek, Pichler, Bodner, & Hammer, 2011). Contemporary authors in business ethics recommend that leaders evaluate the strengths and weaknesses of ethical and unethical approach (Kossek et al., 2011).

The research by Toubiana and Yair (2012) demonstrated the continued viability of the field of workplace ethics. Ethical behavior guidelines in the workplace often include a high level of importance on dedication (Yammariro et al., 2013). Unethical behaviors enable workers to feel a strong alignment between their values and those of the business (Suhoenen et al., 2011). Workplace ethics direct organizational leaders to achieve superior financial performance and productivity in harmony when facing unethical issues (Singh & Rathore, 2014).

The organization systems approach embraces the best practices for determining unethical decision making by leaders (Singh & Rathore, 2014). Workplace ethics guide leaders to make sound decisions in regards to business ethics (Singh & Rathore, 2014). Dyck (2014) concluded in the study involving 13 interviewers with prominent Sri Lankan business leaders, that 87% of the leaders stated workplace ethics affected their ability to make sound decision. One hundred percent of the leaders used an array of leadership tools to make effective decisions in the workplace (Dyck, 2014). A study on workplace ethics in the United States conduct by Petrick, Cragg, and Sandor (2011) included personal interviews, literature review, online research, and survey questionnaires. Each covering 15 years of data ranging from 1995 to 2009. The results of the study conducted by Petrick et al. included data from 150 respondents out of 325 surveys, which represented a 46.2% response rate (Indartono & Wulandari, 2013).
Leaders may use ethical principles to make decisions (Curtis & O’Connell, 2011). Drucker (1960) argued that the principle of decision making could employ all kinds of principles, such as, the act of including unethical principles or decisions that lead to unethical outcomes. Agbim et al. (2013) go on to say that, the principle of decision making is essentially a two-step process. The first step is selecting and communicating the right principle to which decisions must adhere and the second step requires the decision maker to apply the appropriate principle (Agbim et al., 2013).

**Decision Making Process**

Decision making is the foundation of every management and business activity (Vohs, Baumeister, Schmeichel, Twenge, Nelson, & Tice, 2014). Gigerenzer & Gaissmaier (2011) argued that studies showed that entrepreneurs and leaders do not achieve more than 50% correct results in their decision making and problem solving. A good decision making starts with a purposeful, consecutive, strategic thinking process (Vohs et al., 2014). Vohs et al. stressed that good decision making invites a lot of thinking and thinking is the ultimate human resource. So a good decision is not an accident; it is always the result of high intention, sincere effort, intelligent direction, and skillful execution. A good decision represents the wise choice among many alternatives (Moss, 2011).

A significant part of decision making skills is in knowing and practicing good decision making techniques (Gigerenzer & Gaissmaier, 2011). Gigerenzer and Gaissmaier shared nine principles of decision making. The principles focus on good decision making, such as assigning priorities, setting time-frame, gathering and reviewing up-to-date cold facts. The principles also include painting a scenario of desired outcome, weighing the pluses against the minuses in getting where you want to be, exploring the ramifications for all involved, using your wisdom, have courage. Finally, going with your gut instinct and decide, putting the decision into action, and evaluating the outcome of your decision and steps of action.

Leaders can make as many as a hundred or more decisions in a course of a day (Moss, 2011). Moss (2011) argued that leaders should consider seven principles to guide a leader into making the right decisions. Time them, align them, balance them, act when you have to, instinct, don’t decide without acting and keep your decision under review. Decision makers encounter decision points on a continuous basis (Guerra-Lopez & Thomas, 2011). Copious data are available for evaluating and determining the potential effectiveness of data use to inform decisions (Guerra-Lopez & Thomas, 2011). The impact on developing data for decision support systems is a focus, and it involves technological intervention (Danielsson & Alm, 2012).

Integrating the ability to make decisions to unethical behavior into the leadership allow leaders to apply logic and analytical skills (Manfredi, Pant, Pennington, & Versmann, 2011). Govaerts, Schuwirth, Vander Vieuten, & Muijtjens (2011) believe the key to applying logic and analytical skills is to influence long lasting change in leaders. Leaders will need to upgrade their style and approach to managing their people. This approach would be an effective way to identify the critical competencies necessary to make effective decisions in the business workplace (Govaerts et al., 2011). Identification of the widespread emergence of unethical decision making in management is an important topic for future research in understanding when leaders are likely to make unethical decisions (Cremer, Dick, Tenbrunsel, Pillutla, & Murnighan, 2011). The two main factors that influence ethical issues are the level of intercollegiate trust and employee conceptualization of business ethics (Trapp, 2011).

Developing a program to demonstrate the contrast between ethical and unethical values establishes the first step in creating a company culture that emphasizes and reinforces ethical standards (Toubiana & Yair, 2012). There are many different approaches to unethical behavior and none of them is 100% compatible with what we consider business ethics so far in this research. There was a struggle by Drucker (1960) in deciding which approach, he finally arrive at basic ethical principles that were essential since he believe that ethical behavior was an absolute requirement for all organizational leaders (Toubiana & Yair, 2012).

**3. Research Model & Methods**

**Hypotheses and Research Model**

This quantitative correlational study involved asking the following research question; Do retail business leaders understand the relationship between leadership, decision making and ethical behavior? The following hypotheses were formulated:

\[H1_0: \text{There is no relationship between leadership, decision making, and ethical behavior.}\]
There is a statistically significant relationship between leadership, decision making, and ethical behavior. The role as the researcher was theoretically non-existent because the goal of the research was to have the participants independent of the researcher (Tonon, 2015). In this correlational study, the data collection was without regards to the participants while collecting the data (Tonon, 2015). The role as the researcher allowed detachment from the study and the sample in the study. The researcher had no previous relationship with the topic or the participants (Tonon, 2015). The role as the researcher as it related to ethics, the Belmont Report protocol and Federal Regulations 45 CFR and 21 CFR 50 was to protect the autonomy, the safety, the privacy, and the welfare of human research subjects. The informed consent documents were clear that the study was a research study, and not clinical therapy. The consent to participate in the research was voluntary and was free of any coercion from the researcher (Binik, 2014).

The research population included 98 managers who worked for a retail business in southwest United States and who had been functioning in a leadership position such as middle or upper management for 5 years or more. Probabilistic sampling was the sampling method because it was an archeological sampling method based on formal statistical criteria in selecting single units to investigate (Olson et al., 2011). The specific subcategory was simple random sampling. This type of sampling ensured an unbiased representation of the group (Cohen, Cohen, West, & Aiken, 2013).

A power analysis using G*Power version 3:1.9 software, was conducted to determine the appropriate sample size for the study (Faul et al., 2009). Faul et al. described G*Power as a statistical package used to conduct an apriori sample size analysis. An apriori analysis, assuming a medium effect size (f = .15), a = .05, indicated a minimum sample size of 68 participants was required to achieve a power of .80. Increasing the sample size of 146 will increase power to 98. 98 participants were involved in this study, 98 participants were asked to participate, and all of the 98 participants did participate making it 100% participation. The use of a medium effect size (f + .15) was appropriate for this proposed study. The medium effect size involved the analysis of several articles where leadership, decision making, and ethical behavior was the outcome measurement (Pinsky, Dyda, Pinsky, Misch, & Sarment, 2014).

**Used Statistical Methods**

The following statistical analyzes was conducted in this research study that revealed if a relationship existed between leadership, decision making and ethical behavior. T-test, Pearson Correlation and Analysis of Variances (ANOVA) (Xu & Li, 2014). The t-test assess whether the means of two or more groups were statistically different from each other. This analysis was appropriate to compare the means of the groups (Weaver & Wuensch, 2013). The Pearson Correlation found a correlation between at least two continuous variables. The value for such a correlation lies between 0.00 (no correlation) and 1.00 (perfect correlation) (Smoot, Ono, Ruscheinski, Wang, & Ideker, 2011).

The analysis was by comparison of the means, in which it was possible to analyze the data by comparing the post-intervention measurements. This test was administered in a number of ways, such as, t-test of the differences of the means, ANOVA of the differences of the means, or repeated measures analysis of variance (Weaver & Wuensch, 2013). The second approach was an analysis of covariance, in which the post-intervention measurement was the response, the intervention was the design factor, and the pre-intervention was a covariate. In each test, the p-value was 0.05 (Smoot et al., 2011), and the ANOVA described and compared the relationship between a number of groups (Xu & Li, 2014).

**4. Empirical Parts**

Responses to the Authentic Leadership Questionnaire and the Moral Potency Questionnaire, and the results from the data input into SPSS revealed whether a relationship existed between leadership, decision making, and ethical behavior.
According to the study hypotheses, either no relationship existed between leadership, decision making, and ethical behavior or a statistically significant relationship existed between leadership, decision making, and ethical behavior. Scales from standardized assessment tools served as the basis for associated hypotheses. Participants responded to two instruments to gather data regarding the variables of interest.

The basis of the findings from SPSS was a correlation and a prediction design, and the basis of the correlation and prediction design was to obtain two or more scores from each member of the selected sample. Variables of interest served as the basis for scores. Standard MLR was conducted to assess the relationship between leadership, decision-making and ethical behavior. Leadership and decision-making were the independent variables, and ethical behavior was the dependent variable. The null hypothesis was that leadership and decision-making would not significantly predict ethical behavior. The alternative hypothesis was that leadership and decision-making would significantly predict ethical behavior.

The assumptions of linearity, normality and independence of residuals were examined via normal probability (P-P) plot of the regression standardized residual (Figure 1) and scatter plot of the residuals (Figure 2). As seen in the plots, the hypotheses that there were severe violations of the assumptions and they were tenable. A histogram (Figure 3) of the dependent variable was further evidence of severe violations of the assumptions. A further review of a correlation matrix revealed there was severe multicollinearity ($p < .01, r = -.97$) between the two predictor variables. A commonly used cutoff value is tolerance less than 0.01, and if the tolerance coefficient in itself is quite unstable, then sometime reliable slope coefficients can be obtained even if the tolerance is less than 0.01. In the case of severe multicollinearity in a regression model, without imposing a bit of bias on the regression coefficient estimates via ridge regression, it was impossible to obtain estimates of these coefficients; therefore, bootstrapping using 1000 samples were computed and reported where appropriate.

The model as a whole was able to significantly predict ethical behavior ($F (2.95) = 12.79, p < .01$). The effect size of $R^2 = .21$ indicated that approximately 21% of the variance in ethical behavior is accounted for by the predictor variables. However, none of the individual predictors was significant. The existence of multicollinearity between the two predictor variables perhaps offers a plausible explanation for this phenomenon. Therefore, these results should be viewed with caution. Descriptive statistics are presented at table 4. Table 5 depicts the regression results.

![Figure 1: Normal P-P Plot of the Regression Standardized Residual.](image)
Figure 2: Scatter plot of the standardized residuals

Figure 3: Histogram of the regression standardized residual.

Table 4: Mean (M) and Standard Deviation (SD) for Study Variables (N = XX)

<table>
<thead>
<tr>
<th>Variable</th>
<th>M</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical Behavior</td>
<td>47.74</td>
<td>5.61</td>
</tr>
<tr>
<td>Leadership</td>
<td>27.38</td>
<td>2.1</td>
</tr>
<tr>
<td>Decision making</td>
<td>20.93</td>
<td>2.53</td>
</tr>
</tbody>
</table>

Table 5: Regression Analysis Summary for Predictor Variables (N = 98)

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>SE B</th>
<th>B</th>
<th>t</th>
<th>p</th>
<th>B 95% Bootstrap CI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>44.3</td>
<td>43.2</td>
<td></td>
<td>1.025</td>
<td>0.308</td>
<td>[-41.47, 130.06]</td>
</tr>
<tr>
<td>Leadership</td>
<td>-0.405</td>
<td>0.97</td>
<td>-0.151</td>
<td>-0.416</td>
<td>0.678</td>
<td>[-2.34, 1.53]</td>
</tr>
<tr>
<td>Decision Making</td>
<td>0.694</td>
<td>0.81</td>
<td>0.313</td>
<td>0.86</td>
<td>0.392</td>
<td>[-0.907, 2.30]</td>
</tr>
</tbody>
</table>

5. Conclusions

The findings were consistent with Drucker’s (1960) theory that effective decision-making was a key element to leaders making sound decisions regarding ethical behaviors. The findings of this study supported Drucker’s (1960) theory that effective management practices should serve as the principle objective of decision-making.
Also, the philosophy of management practices involved several proven management practices that can effectively influence the decision-making process (Toubiana & Yair, 2012). Management best practices may consist of selecting the right people, showing empathy, communicating effectively, being positive and constructive, and thanking and rewarding staff. Management best practices may also consist of being both aggressive and realistic when setting goals and objectives, holding individuals accountable in an effort to deliver on the expectations one has of them, seeking to create an ethical workplace, and using metrics to evaluate individual performance and the organization diversity and inclusion program. The results from the theory of management by Drucker (1960) that was applied to this study showed that ethical behavior served as a foundation to examine various factors that explained the correlation between leadership, decision-making and ethical behavior. A need exists to develop conceptual clarity on the subject of ethical behavior (Sunhonen et al., 2011). Unethical behavior may have an effect on leaders’ interaction with employees and how the outcome affects employees’ job performance and emotional well-being (Vandenbroucke, 2011).

The findings of this study revealed that unethical behavior could relate to leaders’ ability to make sound decisions in the business workplace. Therefore, further study on leaders’ of corporations initiating programs, conferences, workshops, retreats, ethical behavior conferences, and offsite programs is necessary. Future studies are necessary to help organizational leaders create strategic plans to improve the decision making process involving ethical behavior in the business workplace. Researchers could replicate this study using the same instruments with many different populations in the business area. Replicating the study using the same instruments would demonstrate that the findings were not an accident or coincidence. Such research would reveal differences and commonalities among employees and leaders’ in a business workplace regarding their practices across diverse environments. Researchers should conduct future studies globally, as well as, in local business sectors, to gain understanding into the relationship between leadership, decision making, and ethical behavior. Researchers should conduct a 1 to 5-year longitudinal study to examine the impact and to expand the existing body of literature. The longitudinal study would involve tracking the participants’ practice and yielding substantial quantitative data, findings, and understanding how future studies may assist in promoting social change.

6. References


Curtis, E., & O’Connell, R. (2011). Essential leadership skills for motivating and developing staff: An empowered team is enthusiastic about its work and will deliver high quality care. The key, argue Elizabeth Curtis and Rhona O’Connell, is transformational leadership. *Nursing Management, 18*, 32-35. doi:10.7748/nm2011.09.18.5.32.c8672


