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Organizational Governance Structure: Defining the Link Between Ethical Leadership, Ethical Climate, and Employees Outcomes

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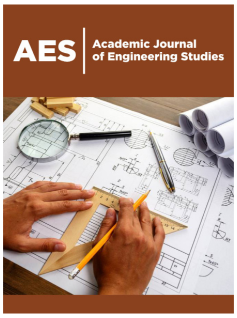

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Abstract

Current events clearly demonstrate the failure of organizational governance structures to consistently provide positive guidance, oversight, and identity protection that fosters positive outcomes for organizations. Organizations as diverse as Toyota, Goldman Sachs, Sunbeam, and Enron have experienced massive failures that may have roots in failed organizational governance structure. This article will investigate the relationship among various governance factors including organizational climate, leadership, and ethics to attempt to find common features of organizational governance structures. A range of both successful and unsuccessful organizations will be analysed in an attempt to understand the nature of organizational governance. Building upon the results of previous studies, this article will also propose several research propositions for future researchers to further examine the relationships between ethical leadership, organizational governance structures, ethical climate, and organizational and employees' ethical conducts.

Keywords: Positive guidance; Demonstration; Ethical leadership; Environment

Introduction

Many incidents clearly demonstrate a vast number of unethical actions from leaders and organizations. Following ethical scandals illustrated by the wrong doings of Enron, Goldman Sachs, Sunbeam, and many others, it is inevitable for researchers today to consider: How did organizational members allow such unethical actions to be carried out and what can be done to prevent future leaders and organizations from performing the same toxic practices? It should be to no surprise that current literatures have shown increasing interests in an attempt to understand the importance of effective leadership in organizations [1-4]. Leaders plregulations androle in organizations in that they are responsible to act as effective role models, set formal rules and regulations, and shape the organizational environment to drive desirable behaviours from their organizational members [5]. Ethical leadership theory has recently emerged in the leadership literature [3,6]. Although studies of different leadership theories are prevalent (e.g., transformational, transactional, charismatic, authentic), the emergent of ethical leadership theory is beginning to shed new lights into the impacts of effective leadership on ethics [3,7].

The purpose of this article is to assess current studies on ethical leadership in relations to organizational governance structures, ethical climate, and organizational and employees' ethical conducts. Building upon previous studies on ethical leadership, social learning theory, ethical climate, and organizational governance structures [3,4,8,9], several research propositions will be proposed for future researchers to further strengthen the theory of ethical leadership. Additionally, a range of both successful and unsuccessful organizations will be analyzed to provide support for our propositions.

What is Ethical Leadership?

Ethical leadership is defined as the leader's "demonstration 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" [5]. Although this conceptualization of ethical leadership serves as an important theoretical foundation as to what ethical leaders 'ought' to do, it is simply too ambiguous to be useful in our discussion. Building on this theoretical definition of ethical leadership, Brown & Treviño [3] further characterized an ethical leader to be represented by two main ethical characteristics: Moral Person and Moral Manager. As a Moral Person, ethical leaders are thought to be honest, trustworthy, caring, and fair [3,6]. That is, whether it is within their personal or professional environment, ethical leaders are seen as those who will always behave, make decisions, and treat others in ways that can be ethically justified [3].

On the other hand, as a Moral Manager, ethical leaders are also motivated to influence their followers to behave according to the moral code and ethical principles. That is, ethical leaders make ethics an important part of their management plan; they communicate their ethical beliefs to their followers, act as role models for ethical behaviors, and enforce ethical rules, regulations, and policies to reward and punish their followers with regards to the appropriateness of their behaviors and actions [6,10,11]. In short, an ethical leader can be seen as both a Moral Person and a Moral Manager in that he or she is characterized by honesty, integrity, consideration, and fairness; and are motivated to explicitly articulate and influence others to also behave in the same ethical manner. Although research on ethical leadership is still considered to be in its infancy, empirical studies are beginning to reveal interesting findings to the relationship between ethical leadership and ethical consequences [4]. For instance, van den Akker and colleagues found a positive relationship between subordinates' perceptions of their leaders' ethical qualities and the level of trust these employees provide to their leaders [12].

To explain this relationship, it is believed that ethical leaders often ask themselves "What are the appropriate and ethical actions to this situation?" and "What are the consequences of my actions?" Perhaps, in addition to ethical leaders' display of moral and ethical behaviors, ethical leaders are able to convey their ethical beliefs to their followers. Ethical leaders 'walk the talk' with regards to their ethical beliefs, and thus, are able influence others to view them as being credible and trustworthy [3]. The relationship between ethical leadership and their followers' trust, as shown by van den Akker and colleagues, has lent support to many recent studies on ethical leadership. For instance, a recent empirical study by Walumbwa and colleagues has found that leader-member exchange, self-efficacy, and organizational identification mediate the positive relationship between ethical leadership and employees' performance [13]. The authors suggested that the ability for ethical leaders to capture their followers' trusts helped promote the quality of interaction between leaders and their followers [13]. Because ethical leaders are perceived to be honest, caring, and fair, their subordinates were found to exhibit higher self-efficacy and the confidence needed to successfully accomplish difficult tasks. That is, followers of ethical leaders trust that their leaders will be supportive, caring, fair, and helpful which, in turns, leads higher followers' self-confidence [14-16].

Other studies have also shown that followers' perceptions of ethical leadership result in higher job satisfaction, motivation, the willingness to exert extra efforts, and leader and organizational commitment [17-20]. In addition to these indirect influences, a number of direct influences of ethical leadership have also been found. For instance, Mayer et al. [4] and Mulki & Colleagues [21] found ethical leadership to be positively related to employees' ethical behaviors. These authors suggested that ethical leaders not only behave in an ethical manner but also find it important that their followers behave in the same manner [21]. That is, ethical leaders directly influence ethical behaviors by enforcing standards, policies, and procedures to explicitly define the boundaries of acceptable actions to promote ethical conducts [4]. For example, ethical leaders' use of reward and punishment systems with regards to ethics, ethical guidelines, and the consistency in articulating of the importance of ethics are found to be able to influence ethical practices from their followers [21]. This research will expand on the results of previous studies to help explain the positive impacts of ethical leadership. The following sections will examine the relationships between ethical leadership, organizational governance structures, ethical climate, and organizational and employee's ethical conducts.

Social Learning Theory and Ethical Climate

Leaders of today are facing enormous challenges to be able to comply with ethical principles. Although policies such as codes of ethics, the Sarbanes-Oxley acts, and other federal guidelines are in place, the ever-increasing competitions and the need to for leaders to effectively manage scarce resources lend support to the attractiveness of ethical misconducts. Moreover, organizational complexity also rears its head as a major challenge in today's organizational environment. Employees are expected to provide unique knowledge, skills, and abilities. This high level of organizational complexity increases the ease for employees to make questionable decisions without ever being noticed. We will attempt to explain the positive impacts of ethical leadership on organizational members with regards to several organizational factors. Leadership has been found to be a key variable in understanding organizational culture, climate, structure, and performance [22]. These organizational factors represent important functions that help define the boundaries of acceptable behaviors for members of the organization. For the purpose of this research, we will focus our interest on how ethical leaders are able to shape organizational climate in a way that ensures ethical behaviors from their organizational members. Organizational climate is defined as "the shared perceptions of and the meaning attached to the policies, practices, and procedures employees experience and the behaviors they observe getting rewarded and that are supported and expected" [23-26]. Many researchers have argued

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that organizational leaders are able to enforce rules, regulations, policies, and standards to shape the climate of their organizational environment [4]. Furthermore, it has also been argued that effective leaders are viewed as role models for appropriate conducts and, as a result, help define the way in which organizational members are expected to behave. Studies to clarify the role of leaders in guiding, overseeing, and correcting the behaviors of organizational members are plentiful [27,28]. As a result, a clear link between effective leadership and effective organizational climate is evident [21,29,30].

To help explain the relationship between ethical leadership and ethical organizational climate, we will draw our attention to the underlying foundation of the Social Learning Theory (SLT) [31]. At its generalizable form, social learning theory posits that individuals learn appropriate actions by observing the others in their environment [8,31]. First, social learning theory suggests that individuals are likely to give special attention and try to emulate the behaviors of those who they consider to be successful, credible, and attractive role models [8,31]. In the organizational environment, leaders are often considered to be the legitimate source for employees to observe, learn, and emulate specific actions and behaviors. Hence, employees are likely to emulate ethical behaviors from ethical leaders because they view these leaders as being credible and trustworthy. Secondly, social learning theory also posits that individuals tend to learn by observing the consequences of actions that are carried out by others [8,31]. For example, employees are likely to learn the appropriate actions and behaviors through the leaders' use of rewards and punishment systems. Ethical leaders use rewards and punishments to promote ethical practices; there followers will then learn appropriate actions be observing which actions are acceptable.

In sum, we believe that ethical leaders help define organizational climate to be ethical in that employees are able learn the acceptable behaviors by observing their ethical behaviors as well as by seeing the consequences of the actions that are rewarded or punished. It is worth nothing that when leaders are led by the moral and ethical principles, their followers are likely to learn that ethical behaviors are accepted as well as expected. However, when organizational members are led by corrupted individuals that overlook the importance of the moral and ethical codes, it is also likely that these members are going to perceive ethical misconducts as being acceptable. Efforts to find a link between ethical leadership and ethical climate are clearly present in literature. Perhaps the most notable of which is the results of Brown and Treviño's work that conceptualizes the relationship between the two constructs through social learning theory [3]. Several recent empirical studies have demonstrated positive correlations between ethical leadership and ethical climate [4,18,21]. In support of these findings, researchers argued that ethical leaders are able to influence ethical climate by presenting themselves as attractive role models with regards to ethics, articulating the importance of ethical principles, and enforce rules and regulations to ensure that their followers behave in ethical manners [3,32]. In sum, we believe that ethical leaders are able to promote ethical climate through effective role modeling and effective reinforcement of ethical principles. As a result, their subordinates value ethics as an important part of their attitudes, ways of thinking, and behaviors.

Ethical Climate and Organizational Outcomes

Studies have shown that ethical climate plays an important part in helping explain the relationship between ethical leadership and organizational members' ethical behaviors [18,13,32]. Most notably, it has been found that ethical climate mediates the relationship between ethical leadership and employees' ethical conducts [4]. Building on their findings, Mayer & Colleagues [4] suggested that ethical leaders are able to influence their subordinates' ethical behaviors by shaping organizational climate that stresses the importance of ethics. Review of the literature has also provided strong support for the positive relationship between ethical climate and employees' ethical conducts [7,33]. For instance, Baumhart [34] and Treviño & Youngblood [35] found that the use of rewards to promote ethical behaviors is positive associated with employees' ethical conducts. As suggested by the social learning theory proposed earlier in this article, we believe that employees learn to appropriate actions through ethical leaders' use of rewards and punishment system to articulate that ethical behaviors are desired. More interestingly, research by Hegarty & Sims [36] demonstrated that individuals frequently engage in unethical practices when rewards are used solely for the purpose of generating results.

That is, individuals tend to do whatever necessary, even in the case of having to violate ethical and moral codes, when leaders fail make ethics an important part of the environment. Other support for the positive relationship between ethical climate and organizational ethical outcomes were also found. For instance, Peterson [37] found discrepancies and conflicts to be lower in organizations that display climate that values ethics and caring. Bartels and colleagues were also able to find a negative relationship between ethical climate and ethical violations [38]. Mayer et al. [6] found that employees and their managers tend to experience fewer negative conflicts when managers and the organizational climate were found to be ethical. In sum, strong empirical supports for the positive relationship between ethical climate and employees' ethical behaviors are abundant. Therefore, we conclude that a strong positive relationship exists between organizational ethical climate and employees' ethical behaviors. The following section will examine organizational governance theory to help explain the link between ethical leadership and ethical climate. In addition, we will also offer several propositions for future researchers to empirically examine the link between ethical leadership, ethical climate, and employees' ethical outcomes.

Organizational Governance

Organizational governance defines the appropriate actions for members of an organization [9]. Systems' governance can be defined as an integrated system for guidance, oversight, accountability, projection, and evolution that encourages desirable outcomes for enhanced mission capabilities while maintaining, protecting, and evolving the identity of the entity [39]. Researchers

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have argued that every system is governed, although some governance approaches are Implicit and sometimes imperceptible while others may be Explicit and highly visible [9,39]. Distinction between Implicit and Explicit governance structures can simply be illustrated by an example. For this purpose, we will consider the Mississippi River as a system in nature that can be guided by either form of governance structure:

In its natural state, the Mississippi River is implicitly governed by natural forces such as climate, hydrodynamics, centrifugal force, material composition, and chance. Absent the presences of humans, the river will sculpt a course based on flow dynamics and water levels. Water of the Mississippi River will meander through the path of least resistance until it reaches the Gulf of Mexico where it will eventually spill out into the ocean. In an explicit form of governance for the same river, however, human have decided that the vagaries of the unpredictable water flow should be altered to create more desirable outcomes. For instance, dams, levees, and locks have been built to channel the flow of the river to generate desirable outcomes. In this altered state, water is available for human purposes and the consequences of uninhibited and natural water flow are mitigated. With only a few exceptions, each form of governance has effectively served its governance purposes [40].

Leaders play a major role in shaping organizational governance structure to help define the ways in which their followers are expected to behave. Implicit Governance Structure is driven by normative behaviors that represent the standards for all members of the organization. Without any explicit set of rules, Implicit Governance Structure forms transparent boundaries to define a set of acceptable norms, standards, and practices. Implicit organizational structure does not require explicitly stated rules and policies because these normative behaviors are tightly embedded and infused within the organizational system. On the other hand, Explicit Governance Structure is driven by explicitly stated set of rules, regulations, policies, and mission statements. These explicit set of rules clearly define the boundaries of acceptable actions to convey the expected behaviors to organizational members - members are held accountable to behave according to the explicitly stated rules. We will extend these fundamental concepts of organizational governance structures to explain the relationship between ethical leadership, ethical climate, and employees' ethical behaviors.

Explicit Governance Structure

Many organizations have designed and implemented explicit governance structures to guide the decisions and actions of managers and employees and define the boundaries of acceptable behaviors. This explicit governance structure can be characterized as the explicit expectations that organizational leaders place on its member regarding the processes, procedures, and approaches that must be followed in order to achieve organizational goals. This governance approach can be manifested by the publication and promulgation of such internal antecedents as mission statements and ethical policies, as well as from external sources in the form of codes of ethics, laws, and regulations. The purpose of these antecedents is to provide not only an explicit guide to individual behavior and decision-making but also to articulate what is allowable and to proscribe what is prohibited by the governance structure [9].

Scott [9] defines the concept of formalized structures as those that are guided by rules that clearly describe the exact behaviors that are expected from organizational members. We propose that explicit governance structures are those that are driven by explicitly defined set of formalized structures that are enforced to define the boundaries of acceptable behaviors. Because these expectations are often put in place by organizational leaders, it is important to note that explicit governance structures may fail if the leaders fail to act as role models or the climate is not pervasive enough to detect and correct variations from the accepted norm.

Ethical Leadership and Explicit Governance Structure

Researchers have demonstrated contradictory findings with regards to the effectiveness of explicit governance structures to drive ethics in organizations. A meta-analysis conducted by Loe et al. [7] illustrates this. For instance, Treviño & Youngblood [35], Barnett [41], Kaye [42], Barnett et al. [43], and Vitell et al. [44] found formal ethical policies to be positively associated with employees' awareness of the ethics. Furthermore, Weaver & Ferrell [45] and McCabe et al. [46] found that by enforcing ethical codes of conducts, employees are more likely to behave in desirable and ethical manners. Contradictory to these findings, however, many researchers have failed to show support for the positive relationship between explicit ethical governance structure and ethical behaviors. For instance, research conducted by Kohut & Corriher [47] demonstrated that knowledge of ethical codes alone has no significant impact on ethical decisions. Moreover, results from research conducted by Ferrell & Weaver [48] also showed no support for the existence of ethical corporate policies to be related to ethical conducts. We will attempt to clarify these conflicting findings by relying on the fundamental concepts of ethical leadership and ethical climate.

Relying on the underlying foundation of the social learning theory, we believe that ethical leaders are able to influence ethical climate through their ability to enforce rules, policies, and rewards and punishment systems to articulate the importance of the moral and ethical principles [3,4]. To help explain the conflicting findings regarding the relationship between explicit ethical governance structure and ethical conducts, we believe that it is important to look at the main characteristics of ethical leadership. For instance, while many leaders may try to promote ethical principles through the use of explicitly stated rules and regulations, ethical leaders also consistently articulate the importance of ethics and act as appropriate role models for ethical behaviors. In support of this, Treviño et al. [46] found ethical codes to be negatively related to employees' misconducts when other ethical dimensions are present (e.g. ethical leadership, rewards system, and ethical policies).

We propose that the presence of ethical leadership increases subordinates' perceptions of an organizational climate that values

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ethics. That is, in addition to enforcing ethical rules and regulations, ethical leaders also make explicit ethical governance more effective by acting as ethical role models and by consistently articulating the importance of ethics. This consistency in ethical leaders' behaviors drives employees to become more aware of the organizational climate as being ethical. In essence, the effectiveness of explicit ethical governance structure is moderated by ethical leadership. We also believe that the ability for explicit ethical governance structure to influence employees' ethical behaviors is mediated by ethical climate. That is, the increase in employees' awareness of ethical climate leads to the ability for explicit ethical governance structure to influence employees' ethical behaviors. This leads to us the following research propositions:

A. **Proposition 1:** A positive relationship exists between explicit ethical governance structures (those that are driven by ethical codes, rules, and policies) and ethical climate. That is, organizational members perceive the climate to be ethical and are aware of the importance of ethics when ethical codes, rules, and policies are made explicit.

B. **Proposition 2:** The positive relationship between explicit ethical governance structures (those that are driven by ethical codes, rules, and policies) and ethical climate is moderated by ethical leadership. That is, the positive relationship between explicit ethical governance structures and ethical climate will be low or non-significance without the presence of ethical leadership but will be highly significant in the presence of ethical leadership.

C. **Proposition 3:** The relationship between explicit ethical governance structures (those that are driven by ethical codes, rules, and policies) and employees' ethical behavior is mediated by ethical climate.

Implicit Governance

Implicit governance can be defined as a system that is in harmony with nature. The framework of the implicit governance structure allows natural patterns of work, organization, and cooperation to emerge because its structure allows an emergence of informal structures to accommodate the way that people do work and approach problems [49]. Implicit governance structure behaves similarly to an informal system in that it takes into account each member's distinctive beliefs to populate the organization. Implicit governance structure is driven by values that help shape organizational standards that are embraced and practiced by members of the organization. The organizational ethical climate of an effective implicit governance structure should include those of self-correcting culture, mores, norms, and customs that are part of the often-implicit social contract as well as socially accepted and ethical behaviors. In essence, effective implicit governance structures are not those that are driven by formalized set of rules, regulations, and policies. That is, effective implicit governance structures drive individuals to behave according to the norms, mores, and customs that are embedded within the organization. These individuals enter the organization with individually shaped ideas, values, and beliefs, and thus, their willingness to abide by specific set of rules should not be taken for granted [49].

Ethical Leadership and Implicit Governance Structure

Studies have demonstrated positive relationships between ethical leadership and several ethical organizational environmental contexts (e.g. ethical culture and ethical climate) [3,5]. Although debates abound with regards to the distinction between the impacts that organizational culture and climate have on an organization, distinctions between them are beyond the scope of this research. For the purpose of this article, we will consider ethical climate and culture to represent a boarder construct that defines the ethical boundaries of an organization. The accepted definition of organizational climate and culture can be described as the manner, methods, and approaches that are accepted by the organization as normal and justified [22]. With regards to ethics, ethical climate and culture represents the norms, mores, and attitudes that help form the organization's ethical environment. It is often argued that organizational environment helps define the transparent boundaries of acceptable behaviors [3,22].

To take this a step further, we propose that effective implicit ethical governance structure can be represented by an organizational environment that values the moral and ethical principles. We believe that implicit ethical governance structure helps shape organizational culture and climate in that ethical principles are embraced by members of the organization to be the norms, mores, standards, and values. When organizational members behave outside of the accepted norms, they feel the sense of disconnection, alienation, and disregard. In essence, effective implicit ethical governance structure intrinsically motivates organizational members to behave ethically in order to be socially accepted by others in the organizational environment. Effective leaders form an implicit governance structure through the display of integrity, idealized influence, discipline, and consistency [1-3]. More specifically, ethical leaders are able impose implicit ethical governance structure through their moral and ethical characteristics. Because ethical leaders articulate the importance of ethics and act as role models for ethical behaviors, employees realizes that the organizational climate in which that operate values the importance of ethics [3,4].

Moreover, by shaping the organizational climate to be ethical, followers of ethical leaders learn to embrace ethics to influence their decision making [8,31,50,51]. We suggest that a positive relationship exists between ethical leadership and implicit ethical governance structure in that ethical leaders implicitly define the transparent norms, mores, and values to shape the natural patterns of work while highlighting the importance of ethics. Furthermore, because implicit ethical governance structure (the governance structure that is driven by the norms, mores, and standards and values ethics) is likely to have an impact on how employees view the boundaries of acceptable actions, we propose that a positive relationship also exists between implicit ethical governance structure and organizational ethical climate. Lastly, it is worth

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noting that previous studies have demonstrated that a positive relationship exists between ethical leadership and ethical climate [4]. Therefore, we wish to build upon the results of these findings and suggest that the relationship between ethical leadership and ethical climate exists through ethical leaders' formation of implicit ethical governance structures. That is, ethical leaders are able to influence ethical organizational climate by implicitly defining ethics to be the norms, mores, and standards of the organization. Examples of this might be through leaders' display of ethical behavior, ethical role modeling, and articulation of the importance of ethics. Therefore, we propose the following research propositions:

A. **Proposition 4:** A positive relationship exists between ethical leadership and implicit ethical governance structure. That is, ethical leaders put great emphasis on the importance of ethics through the norms, mores, and values, thus forming an implicit governance structure that stresses the importance of ethics.

B. **Proposition 5:** A positive relationship exists between implicit ethical governance structure and organizational ethical climate. That is, governance structures that are driven by standards, norms, and mores that value ethics will be positively related to the view of the organizational climate as being ethical.

C. **Proposition 6:** The relationship between ethical leadership and ethical climate is mediated by implicit ethical governance structure. That is, ethical leaders are able to influence ethical organizational climate by implicitly defining ethics to be the norms, mores, and standards or the organization.

Research Model

Building on the results of previous empirical studies and our research propositions, we offer the following research model for future researchers to empirically examine the link between ethical leadership, organizational governance structure, ethical climate, and employees' ethical behaviors (Figure 1).

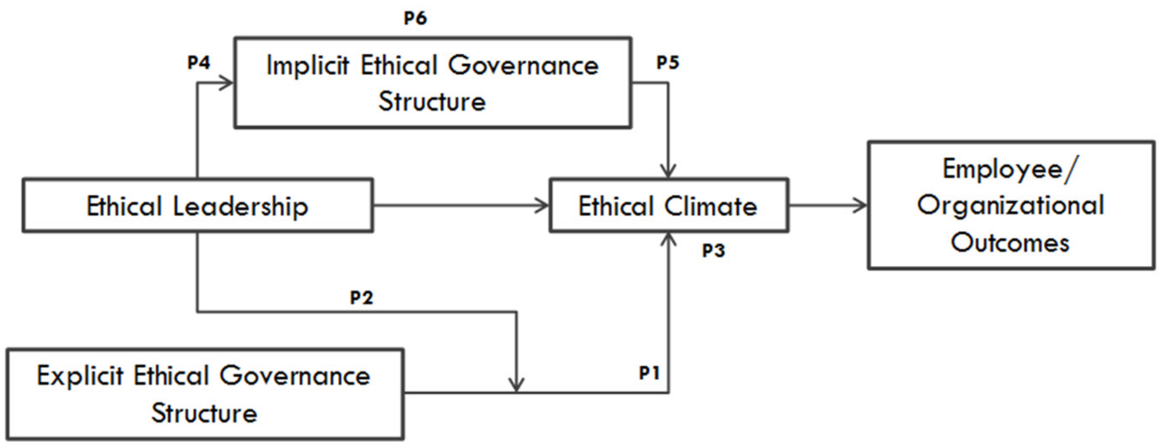

Figure 1: The link between ethical leadership, organizational governance structure, ethical climate, and employees' ethical behaviors.

Analysis of Organizations

In this section, we will examine several organizations and enterprises to try to evaluate the importance of ethical leadership, governance structures, and ethical climate in the organizational environments. It is important to note that these organizational analyses are not intended to represent a comprehensive view of governance effectiveness; they simply represent an analysis of several enterprises and will allow initial categorization of different governance structures. Nevertheless, these analyses may offer some useful paradigms for considering why some systems work while others fail. Further and more extensive research will be required to test a more robust hypothesis about ethical leadership, ethical climate, and organizational governance structures.

Toyota

In 1933, the Toyoda family established the "Toyoda Automatic Loom Works," a Japanese -based company that manufactured sewing machines. It was not until 1937 that Kiichiro Toyoda, a son of the founder, formed an auto company and changed the company's name to "Toyota" in trying to differentiate the new company from the old. Following many years of success, Toyota established itself to be one of the most successful automakers in Japan. In the early 1980's, Toyota, along with Honda and Nissan, were part of the Japanese industrial expansion into the U.S. market which exerted enormous pressure on U.S. auto manufacturers to make better and more appealing automobiles. The success of Toyota extended well into the early 21st century; the company's profits in 2003 alone were greater than Ford, Chrysler and GM combined [52]. A major part of the Toyota success has been its rigorous definition and implementation of an exceptional governance structure. This structure, also known as the Toyota Production System, is the company's strict philosophy of how automobiles should be designed and manufactured [52]. The Toyota Production System enumerates 14 practices that can be characterized into four core principles of production (see Figure 2). It is suggested that the Toyota Production System was deeply embedded as the foundation of Toyota's governance and led the company to worldwide prominence in the auto industry throughout the 20th century [52].

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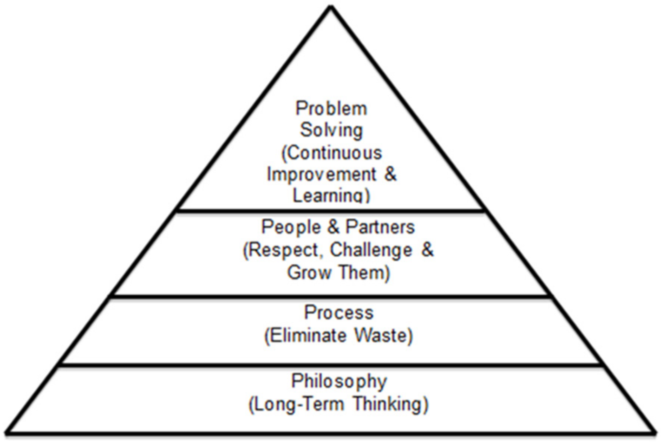

Figure 2: The Toyota production system [52].

Researchers have extensively studied Toyota and concluded that the company's pride and steadfastness to build exceptional automobiles was a family trait [52]. The Toyota Production System served as the company's soul governance since the company emerged into existence. According to Liker and Hoseus [52], the Toyota Production System promoted effective organizational culture at Toyota. More specifically, leaders are guided to be caring and respectful, customers are given high priority (especially in the quality and safety of Toyota's products), and employees are taught to work collaboratively to solve problems. In essence, the Toyota Production System served its governance purposes by an enforcing a structure of ethical principles all the way from its leaders to customers and, as a result, helped led the company to prosperity throughout the 20th century. A shift in the company's philosophy, however, took place as a string of new, non-family members, took the leadership role of the company. From the start of their business, the presidency position of Toyota has always been in the hands of a family member. This, however, changed when Tatsuro Toyoda retired from the company presidency in 1995 and was replaced by a non-family member, Hiroshi Okuda [53].

This succession of Okuda to the presidency began a string of three non-family members to head the company beginning in 1995 [53]. Internecine warfare broke out as family members aligned against non-family members with each opposing group harboring different ideas about company's direction. The non-family executives drove the company to gain market share and often ignored the Toyota's ethical philosophy that had made the company great in the past. Even though Toyota was growing and capturing market share from other manufacturers, the company's quality performance began to erode when compared to competitors [53]. The internal strife since 1995 took its toll. As the non-family executives drove the company to increased sales and market share, quality suffered. A well-publicized array of serious safety issues in Toyota products began to surface in the worldwide media in 2009. For instance, U.S. safety problems in Toyota cars and trucks became increasingly bad that the U.S. Secretary of Transportation opened an investigation into company's production plants. This resulted in a fine of a record of $16.4 million due to numerous safety issues with almost the entire line of Toyota cars and trucks [54]. Furthermore, the U.S. Congress initiated an investigation to determine the company's liability to assess the nesed for legislation to further address their product safety [55]. Toyota may yet recover from this tragedy. New management cast aside the governance structure that once produced the best cars in the world to seek higher revenue, greater profits, and increased market share. This is a clear example of an explicit and highly successful governance structure that was derailed by the actions of shortsighted leaders.

Goldman Sachs

The genesis of Goldman Sachs can be traced to Marcus Goldman, a German immigrant who established a small business in 1869 in New York City as a broker of business promissory notes [56]. By 1882, the firm had experienced some limited successes and Goldman added his son-in-law (Sam Sachs) to the firm, creating a company that is now known as Goldman Sachs [56]. The firm progressed to become the nation's foremost dealer in commercial paper well into the 20th century. A major part of the Goldman Sachs's success came in 1907 when Sidney Weinberg joined the company and later rose to become the firm's Chief Executive Officer [57]. Although Goldman Sachs was a relatively small firm by Wall Street standards at the time, Weinberg led Goldman Sachs to national recognition through a nearly altruistic culture of service that far exceeded the industry's ethical standards [57]. In 1947, Weinberg was introduced to Henry Ford II, just as Ford took over leadership of the family-owned automaker [57].

The two became close friends and Weinberg later established himself as a personal and unpaid advisor to Ford to the extent that Ford described Weinberg as "his best friend" [56]. In all of Weinberg's advice to Ford, it was pointed out that there was never a formal agreement, contract, or any discussion of the fees Goldman Sachs would charge for the services offered. Weinberg's devotion to service, even to a non-paying client, paid off generously in 1956 when Ford chose Goldman Sachs to be the primary financial institution to proffer Ford's offering of $650 million in public stock offerings – this was at the time considered to be the biggest sale of stock in history [56]. This public offering account was so massive and significant that Goldman Sachs was immediately transformed from a small boutique financial house to a Wall Street goliath overnight. Goldman's promotion to the rarified status of Wall Street elite was made possible by Weinberg's ethical principles and his devotion to customer service.

This devotion to services, however, has almost been forgotten since the passing of Weinberg in 1969. Goldman Sachs's governing imperatives under Weinberg were service to the customer and long-term thinking, resulting in the firm's prosperity and respect [56]. The company's direction and devotion to services were disrupted as new management took charge. The events preceding the financial meltdown of 2008 illustrated some examples. In 2010, federal prosecutors were trying to determine whether Goldman Sachs had broken federal laws and played a major part the economic disintegration [57]. Furthermore, the Securities and Exchange Commission (SEC) filed a civil suit against Goldman Sachs for the firm's role in the financial collapse [57]. Acknowledging that

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Goldman Sachs may not have violated the letter of the law, Berkshire Hathaway's long time Chief Operating Officer, Charlie Munger, categorized the firm's behavior as "very competitive in maximizing profits in a competitive industry that was permitted to operate like a gambling casino," Munger also said: "The whole damn industry lost its moral moorings". This opinion seems to point to a failure of the firm's governance structure to meet ethical imperatives: to protect shareholder assets by assessing the long-term and by providing service to shareholders. Instead, Goldman Sachs executive appear to have been primarily focused on generating large personal bonuses, often at the expense of shareholders and may have threatened the very existence of the entity.

Ben and Jerry's

Ben and Jerry's were founded in 1978 by Ben Cohn and Jerry Greenfield in Burlington, Vermont. From the beginning of their business, the company focused on making great ice cream and being socially responsible for the people [58,59]. Based on the company's fundamental beliefs, three mission statements were explicitly defined to guide the company's decision-making process: a Social Mission, a Product Mission and an Economic Mission. These three missions, embedded directly on the company's website, are illustrated in the Exhibit below: Researchers suggest that Ben and Jerry's should be considered as a company that is led by social and ethical values [60]. Cohen & Colleagues [60] notes further: Has a responsibility to the people and society that make its existence possible. More all-encompassing and therefore more effective than philanthropy alone, values-led business seeks to maximize its impact by integrating socially beneficial actions into as many of its day-to-day activities as possible. In order to do that, values must lead and be right up there in a company's mission statement, strategy and operating plans.

These mission statements, along with the company's philosophy, form the basis for the company's governance structure. Each mission is audited every year to give the leaders a clear understanding of how well they are adhering to the company's goals and principles [60]. Ben and Jerry's are an exemplary company not only because they contribute to socially worthy causes and apply environmentally friendly business practices, but also because the company spells out explicitly what they believe and how they will do business. Deviation from this governance structure is mitigated as much as possible. The Ben and Jerry's explicit governance structure meets all the imperatives that the founders have defined as important to the success of their business. They speak from the heart about the principles they hold, and their actions are perfectly consistent with their words and policies.

Southwest Airlines

Southwest Airlines has always been an unconventional underdog. The company was established in 1967 by three Texas businessmen, the most prominent of whom was Herb Kelleher [61]. The path to success was never easy for Southwest. In fact, their major competitors in Texas-Continental, Braniff and Texas International-tried to block the business from ever starting through a series of political and regulatory actions. These actions pushed Southwest to a long struggle – the company was pestered and bullied by the larger airlines and was not profitable until 1973. Thus, these circumstances may help explain the underdog mentality and the unconventional methods employed by the airlines to achieve business success [61].

Although the company's approaches have always been criticized by industry competitors, Southwest has always relied on simple governing strategies that are attractive to passengers, employees, and investors. These strategies involved using only one type of aircraft - the Boeing 737 - to minimize maintenance costs and pilot training, charging low fares on frequent flights to often neglected cities, leaving and arriving exactly on time, treating employees with respect, and providing customers with excellent service and all the while having fun [61]. In turns, Southwest has experienced exceptional growth and financial performance. In addition to 34 consecutive years of profitable performance [62], research has shown that Southwest creates downward ticket price pressure on other airlines and is saving consumers billions of dollars, whether they fly on Southwest on some other airline, each year [63]. Herb Kelleher and Colleen Barrett, two of the founding principles of Southwest, have been steadfast in their adherence to one factor that explains much of the success of the company: treating Southwest people with dignity, respect, and fairness [57]. While other airlines use their employees as fungible commodities to be bought and sold, hired and fired, Southwest treats every employee as part of a large and happy family. Kelleher believes "Nothing kills your company's culture like layoffs ... Not furloughing people breeds loyalty. It breeds a sense of security. It breeds a sense of trust" [57].

What is the secret to Southwest's enduring success? Is it the exceptional leadership of Kelleher and Barrett or are their other contributing factors? O'Reilly & Pfeffer [61], two researchers who have followed the company for decades speculated: Kelleher's and Barrett's brilliance is not just in their leadership behaviors, but in building a strong management team and culture as well as putting into place myriad things to ensure the consistency and perseverance of that culture. Southwest has found a way to build a durable governance structure that has endured with a change in leaders, advances in technology, and new competitors. The governance structure endures, because it was explicitly designed to persist and serve as a consistent, unwavering compass to guide actions, behaviors, and decisions of the company and its employees.

Enron

Enron's troubles began when its foremost leaders left the company. Although Kenneth Lay was the creative genius behind Enron's strategy to move from the natural gas provisioning into the commodity trading business, Rich Kinder was the consummate business professional who insisted on using tried and true techniques of financial and risk management to guide the company [64]. Once Kinder left the company for a rival firm in 1995, Jeff Skilling took over as Chief Operating Officer and later became the Chief Executive Officer of the company. The contrast between the two leaders was stark: Skilling's method of arriving at Enron's

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quarterly and annual targets was downright perverse. Instead of going through a rigorous budget process and arriving at a number by analyzing all the business units and their prospects for the coming year as Kinder used to do, he would impose a number based solely on what Wall Street wanted. He would openly ask the stock analysts: "What earnings do you need to keep our stock price up?" And the number he arrived at was the number Wall Street was looking for, regardless of whether internally it made any sense [64].

This attitude led to patterns of deceit and deception that were astounding. For instance, one of the superstar Enron executives would purchase a business, without any regard to how the business would perform: incentives were tied to successful deal making, not deals that were also profitable [65]. When the purchased asset became problematic, Enron would simply find ways to create a Special Purpose Entity (SPE) and move the asset to a shell company, with the consent of a passive board and a corrupt auditing firm [65]. Jeff Skilling, a brilliant former McKinsey consultant. exacerbated the situation by convincing then CEO Kenneth Lay and COO Rich Kinder to move from standard "historical accounting" to the method of "mark-to-market" accounting [64]. This "mark-to-market" accounting rule enabled Skilling and the firm to "find" additional earnings when needed. Through the use of paper manipulations, evaluations of future values of assets are valid and can be accomplished multiple times. This gave Skilling the ability to generate additional earnings that did not really exist [64]. Skilling used this feature to his advantage.

Whenever Enron management finds a shortfall in their earnings, they would arbitrarily decide that their assets (i.e. natural gas) will be much less expensive in the future, reevaluate the asset value and earnings, and add the new amounts to the company's income statements and the balance sheets [64]. This perpetual motion machine endured for several years as Enron became the darling of Wall Street; leading company's the common stock price to soar. Although all of the growth in revenue and profits were the results of paper manipulations, Enron appeared to be growing profitably and no end was in sight. The scam was revealed when a Fortune Magazine reporter began an investigation and found no substance in Enron's financial reports [64].

Enron is an example of a company whose governance approach was completely inadequate. Enron had an implicit governance structure and culture where its unethical imperatives, driven by the company's leadership, were to make a deal and falsify the data to show continual growth. Enron failed because the toxic leadership created a hazardous culture. The positive imperatives to provide guidance, accountability, and protect the identity of the entity were violated with dire consequences.

Sunbeam

Sunbeam is an iconic American consumer products company that has been in business for over 100 years. In the mid 1990's, the company's Board of Directors decided that a change was needed to transform the company into a modern, effective business machine [66]. The leader chosen for this task was Mr. Albert J. Dunlap. Dunlap was a well-known figure in the business world. His sobriquet: "Chainsaw Al" was given to him for his methods of relentlessly chopping the deadwood from an organization and creating a new spirit and renewed competitiveness [66]. In 1996, Dunlap replaced Roger Schipke, a GE alumnus and an industry veteran, as the new leader of Sunbeam. This was a move that was made because the company was not making progress quickly enough in the eyes of the board members [67].

Dunlap had a reputation as a hands-on leader who would not hesitate to make tough decisions [67]. When Dunlap came to Sunbeam, he arrived with an impressive track record of successful business turnarounds. His assignment prior to Sunbeam as the CEO of Scott Paper Company illustrated an increased in market value of the enterprise from $2.5 billion to $9 billion [67]. Similar miracles were also present in Dunlop's resume prior to Scott. At Sunbeam, Dunlap employed his normal methodology and promptly laid-off 50 percent of the workforce, slashed costs, fired managers, and hired his former colleagues to lay the groundwork for a successful transformation [67]. The stock price rebounded, and the future appeared to be very positive for Sunbeam. However, progress came at a price.

Dunlap can best be described as a toxic egomaniac and "callus to the point of ruthlessness" [66]. A description of this personality by a Business Week reporter aptly describes his personality: Dunlap's intimidating personality was opposite of what the board has encountered with Schipke. Dunlap's personality was abrasive with frequent episodes of shameless self-promotion. Dunlap referred to himself as a superstar much like Michael Jordan in basketball and Bruce Springsteen in rock 'n roll. Dunlap didn't mince word; his focus was to say what he meant and get the job done regardless of jobs lost or egos hurt. "If you want a friend, get a dog" was a common mantra quoted by Dunlop and Wall Street loved him [67]. Dunlap and his hired hands attacked Sunbeam, its people, and its culture. With his fear mongering style and being surrounded by cronies who praised him for his toxic behavior, Dunlap began to exercise power. A fight over company control with the Board of Directors ensued. As long as Sunbeam performed, Dunlap had power and used it.

This time, however, the miracle did not last very long. By 1997, company financial reports indicated that Sunbeam was in its worse shape. As a result of continuously weak financial reports, the company was forced to declare bankruptcy [66]. Charges of financial manipulation were rampant. The Board of Directors summarily fired Dunlap with a short, terse telephone call, but the damage to the company was deep and pervasive [66]. Dunlap almost singlehandedly replaced an effective governance structure with capricious, reckless and unethical behavior. After his take over from Schipke, he decimated the culture, fired anyone who did not agree with his decisions, emasculated the board of directors, and created a culture of fear, intimidation and dishonesty. Dunlop created the implicit governance structure that ensue violated key imperatives set forth by Schipke to ensure the long-term viability of the entity and maintain the system in a positive direction. The board of directors, who should have acted as the keepers and protectors of the governance imperatives, abrogated their responsibilities by hiring a leader with such a toxic reputation and ceding so much

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power to him before he had earned their trust. As a result, Sunbeam paid the ultimate price.

SAS Institute

Unmistakably known for being privately owned, The SAS Institute develops and sells sophisticated software products. Jim Goodnight, founder and CEO of SAS, is a self-effacing entrepreneur who understands the role of people in governance and organizational success. An example of the company's success is illustrated by 34 consecutive years of growth: making SAS the largest private technology firm [68]. While many organizations rave about their dedication to the employees who are the most valuable asset, Goodnight leads by examples. SAS provides an extensive array of benefits for all employees, including On-site health care and day care, even laundry service and car detailing. They can munch on famous free M&Ms and for those who overindulge in same, there's a health club in which to work them off. In return, SAS workers have been very loyal: the company boasts an employee turnover of less than 4 percent a year, a rate it maintained throughout the notorious dot-com boom-and-bust that decimated tech startups and public companies alike [69].

SAS can be classified as having an implicit governance structure because Goodnight does not believe in mission and vision statements and does not engage in strategic planning [61]. The company embraces a product philosophy of "following creativity, not leading it" to keep pace with the rapid evolution of modern technology [61]. Goodnight believes that the key to creativity is to hire creative people and remove any obstacle that could lead to distractions [70]. This incredibly grounded executive sounds like a southern philosopher when he said: "I'm not as much of a visionary as Bill Gates, so I can't tell where the industry is going" [61].

Goodnight has created and nurtured a culture that is focused on three fundamental pillars [70]:

a. Remove all obstacles that might sidetrack employees and keep them from applying their creative energies toward building better products. Make sure all employees are "intellectually engaged".

b. Use managers to stimulate ingenuity and remove obstacle that hinder the workers.

c. Collaborate with clients to ensure complete satisfaction with SAS products. The organizational climate at SAS is a great example of a self-correcting governing structure and creating a "virtuous cycle." The company treats their employees like royalties. In turns, the employees provide innovative products that delight customers; leading SAS to continue to evolve and prosper [70].

United States Marine Corps (USMC)

The United States Marine Corps (USMC) came into existence by an act of the Continental Congress in 1775 [71]. The USMC has a long and storied history that has been the subject of innumerable books and a plethora of Hollywood movies. An aura has been created about the "Corps" that characterizes a Marine as tough, competent, loyal and steadfast in the pursuit of duty. For the most part, this characterization seems to fit. The USMC governance structure can be classified as an implicit governance form, even though rules, regulations, command structures, and laws are in place to guide each marine's behavior. These antecedents are routinely obeyed, but the reason for obedience lies in the culture and mores of the Corps, not the antecedents. Williamson Murray asserts that "Military culture represents the ethos and professional attributes, both in terms of experience and intellectual study, that contribute to a common core understanding of the nature of war within military organizations" [72]. We will use this definition to come to an understanding of how "ethos and professionalism" contribute to the USMC governance structure.

A phrase commonly heard about Marines is: "There is no such thing as an ex-Marine." This implies that the values, culture, and mores instilled by the USMC last a lifetime. Researcher Fred Luthans has defined a seven step cultural socialization model that may help explain this phenomenon [73]:

i. The organization invites a select group of initiates to join the group. Some opt out. The USMC has reasonably strict enlistment requirements and enlistees often drop out of basic training and leave the Corps.

ii. A "humility inducing experience" begins the socialization process by wringing out old habits and instilling new ones. Basic training serves this process: raw recruits enter basic training and graduate as Marines.

iii. Extensive training leads to initial job competence and to eventual "mastery of a core discipline". Once an individual graduates from Basic Training as a Marine, extensive Advanced Individual Training is conducted to begin the process of achieving expertise in a particular discipline.

iv. Precisely defined systems of rewards and control are used to inculcate the desired behaviors. This process has been discussed by author Terry Terriff [73] in his analysis of the culture of the USMC: Highly institutionalized cultural attributes are transmitted from one individual to another in an organization as a function of "this is who we are," meaning "this is how things are done." Actors may adhere to "how things are done" through two different logics. First, an actor will follow culture characteristics due to "logic of consequentialism." Cultural traits in this logic are held to by actors as it benefits them to do so or as they are constrained to do so by sanctions. Second, an actor will adhere to cultural qualities due to "logic of appropriateness." In this logic an actor has been socialized into complying with certain values, routines and roles. And as these values are internalized, they are accepted uncritically and are instinctively acted out [73].

v. The former civilian becomes a Marine by bonding to the USMC identity and making sacrifices for the good of the Corps. Stories of Marine heroism and sacrifice are prolific and often follow the pattern of Marine Gunnery Sergeant Daniel J. Daley – the Medal of Honor recipient who fought in the Battle of Belleau Woods in WWI [73]. During a pitched battle with German forces, Daley rallied

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his men to charge the enemy by shouting "Come on, you sons of bitches, do you want to live forever?" [73].

vi. Myths and legends are used to bolster the cultural norms. This step might be best illustrated by the events that surrounded the Marine victory on the island of Iwo Jima in World War II. One of the seminal events was captured by a photographer when six Marines raised the flag on Mount Suribachi on February 23, 1945, after the Marine triumph over Japanese forces (Terriff, 2006). Terriff ascribes the following meaning to the event: This act, and the iconic photographic and statue representations of this act, have over time been imbued with multiple meanings for the identity of the Marine Corps, and have become an almost universally recognized symbol of the Marine Corps and what it means to be a Marine (Figure 3).

Figure 3: Ben and Jerry's corporate mission statements.

vii. Marines who serve as role models are identified and exemplified by the Corps. Marine General Anthony Zinni fully explores this phenomenon: "Marines carry a sense of responsibility for those who went before us, which ends up meaning a lot to Marines in combat. We don't want to let our predecessors down or taint our magnificent heritage" [73].

Terriff s[73] also notes that legendary heroic figures, such as Chesty Puller, "inspired a degree of veneration, and therefore come to embody particular characteristics that ideally are to be followed." These role models vividly demonstrate the expected behavior of a Marine and become as much a part of a Marine as the individual's DNA. The USMC is an effective fighting force because the system of governance is deeply instilled in each Marine, reinforced in every venue, modeled by the leaders, and supported by the mythology, language, and customs of the Corps. When a culture is as strong as the USMC culture, it is resistant to change and not amenable to deviation. The culture and the governing structure are uniquely self-correcting.

Conclusion And Implications for Future Practices

Current events clearly demonstrated the failure of organizational governance structures to provide positive guidance for positive organizational outcomes. Many organizations that were once considered to be on the forefront of success have experienced dire consequences due to toxic management and leadership. Following ethical scandals illustrated by the wrong doings of companies such as Enron, Sunbeam, and Goldman Sachs, researchers have begun to investigate the roles of ethics, leadership, and organizational structures with the hope to help guide today's organizations. In response to the growing interests in ethical leadership research, our analysis examined the relationship between ethical leadership and organizational ethical outcomes. More specifically, we propose that ethical climate and organizational governance structure represent important antecedents to employees' ethical actions. We have also investigated the role of ethical leadership in helping to shape ethical organizational governance structure and ethical climate. Our analysis offers insightful review of the current literature. Building on the results of previous studies, we offer several research propositions for future researchers to make further contributions to the ethical leadership literature. In support of our propositions, we have also analyzed several organizations and enterprises to determine specific patterns of leadership, governance structures, and organizational outcomes.

Several implications can be taken from our study. From a theoretical point of view, we have identified some of the main characteristics of ethical leadership. We have also examined the concepts behind the social learning theory to help explain how ethical leaders are able to influence ethical organizational climate.

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Our research suggests that ethical leaders are able to promote ethical climate through the use of effective ethical governance structures. A vast number of studies were reviewed to identify several possible relationships between ethical leadership, organizational governance structure, ethical climate, and organizational ethical outcomes. As a result, we have offered several research propositions for future researchers to empirically examine the link between these constructs [74,75].

Several practical implications can also be taken from our research. Analysis of a number of organizations and enterprises clearly illustrated that companies that seriously consider governance structures and design their approaches to encompass ethical values and principles appear to prosper. Our analysis illustrated that imposing explicit structures to micromanage and oversee governance may be an inefficient method to ensure success. That is, a better method seems to be to take the time to construct an environment that evolves into a self-correcting mechanism. As we have also noted, imposing explicit antecedents (e.g. mission statements, vision statement, rules, and policies) provides the ability for an organization to promote a self-correcting environment for its members. It is equally important, however, that leaders of these organizations perform the necessary measures to ensure the effectiveness of the imposed antecedents. Our research merely touched the surface on the importance of ethical leadership. Ethical leadership research is still in its infancy and there remains much to be explored. We hope to see future researchers expand on our research to help ensure the survivability of organizations in today's ever-increasing ethical challenges.

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