

STAKEHOLDER ORIENTATION OF ETHICAL LEADERSHIP: A STEP TOWARD CORPORATE SOCIAL RESPONSIBILITY

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ABSTRACT

Ethics is central to creating a good corporate culture in the organization, and building a reputation and acquiring socio-political legitimacy in society. Ethical leadership refers to the moral value-based words, actions, relationships and decisions of an organizational leader, which promotes and reinforces ethical behavior among employees. This paper studies the perception and orientation of ethical leaders towards various stakeholders. Stakeholders refer to any individual, group or organizations which can affect or are affected by the achievement of an organization's objectives. This paper conceptualizes that an ethical leader has a high concern for corporate social responsibility (CSR) and leads to positive outcomes for stakeholders. Thus, ethical leadership is central to improved corporate social performance. An ethical leader sets ethical standard of morality, integrity, trustworthiness and honesty, and effectively balances stakeholder concerns, which leads to long run social performance of the organization. This paper identifies characteristics of stakeholder orientation of ethical leadership. Further it, investigates the qualities of ethical leadership in enhancing CSR and balancing stakeholder concerns, thereby leading to improved corporate social performance.

KEYWORDS: *Ethical Leadership, CSR, Socio-political Legitimacy, Corporate Culture.*

Introduction

Ethics is central to creating a good corporate culture in the organization, and building a reputation and acquiring socio-political legitimacy in society. An ethical leader sets ethical standard of morality, integrity, trustworthiness and honesty, and effectively balances stakeholder concerns, which leads to long run social performance of the organization. Ethical leadership is defined "as the 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." Previous studies are centered toward leader-follower two-way relationship, while a concept of leader and multi-stakeholder relationship has originated in the era of competitive business world. This study brings light to the notion of relationship between corporate ethical leader and their stakeholders, which is one of the steps toward meeting corporate social responsibility (CSR). Corporate ethical leader's actions and behaviour has been described meeting CSR.

Review

Stakeholder Orientation of Ethical Leadership

Stakeholder oriented ethical behaviour of leaders includes effective communication. Ethical leader authenticity points towards the disclosure of his intentions and maintaining transparency leading to display of moral behaviour consistent with ethical leader's value (May et al., 2003). Lee & Chang (2011) studied that ethical leaders communicate the ethical standard to follower as well as other stakeholders such as customers resulting in healthy public relationship. Communication of this standard is necessary for followers to earn role clarity for giving high performance (Kalshoven et al., 2011). In absence of this communication, failure in performance of organization is visible as stakeholders are confused about their role expectations (Howitt & McManus, 2012). Ethical leader does not only communicate but also receive diverse ideas, opinions and suggestions from others (Resick et al., 2011). Effective communication turns

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out to be a measure for ethical leaders in complicated situation for bringing feasible solutions and organizational change which requires support of relevant stakeholders (Metcalf & Benn, 2013). Podnar&Jancic (2006) also revealed that assessing stakeholder's salience to organization and using resources of communication effectively can bring optimal results.

Corporate Social Responsibility

Corporate social responsibility "refers to the obligations of businessmen to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen 1953, p. 6). Benefits of corporate social responsibility to the organizations such as preferences of the customers (Del Mar Garcia delos Salmones et al. 2005), firm reputation (Duhe´ 2009), stakeholders (Bhattacharya et al. 2009), and job applicants (Greening and Turban 2000).

According to McGuire (1963) social responsibility is more important than the company's economic responsibility and legal responsibility. He argued that the corporation must take interest in politics, community welfare, education and the happiness of its employees '(p.144).

Windsor (2001) stated that Bowen took a broad approach to business responsibilities, as well as social responsiveness, social stewardship, social audit, corporate citizenship and fundamental stakeholder theory (p.23). Porter & Kramer (2006) who suggested that CSR should be used as an opportunity for success.

Corporate social responsibility (CSR) involves organizations going beyond legal obligations and their own interests to address and manage the impact their activities have on society and the environment (McWilliams & Siegel, 2001). CSR is a concept that encourages certain activities or social responsibilities on voluntary basis. Although such social activities are not directly related to business, there is an indirect positive impact on the business undertaking them (Hopkins 2007).

CSR is now a well-known expression for what, in the past, has been a collection of various terms such as corporate philanthropy, corporate citizenship, business ethics, stake holding, community involvement, corporate responsibility, socially responsible investment, sustainability, triple bottom line, corporate accountability and Corporate Social Performance' (Silberhorn & Warren 2007, p.353). Bowen (1953) pointed out that the legitimacy of business derives from societal acceptance of its actions.

The Pyramid of Corporate Social responsibility

Carroll (1991) suggested that CSR includes four kinds of social responsibilities: economic, legal, ethical, and philanthropic. These four dimensions might be depicted as a pyramid. Carroll states that economic responsibilities of the business organization is to create profitability where business is treated as an entity (Carroll, 1991). Legal responsibility is when companies are not supposed to engage in illegal practices in order to generate profits, but are expected to fulfil their economic missions within the framework of the law. Ethical responsibilities embody those practices that are approved or disapproved by the society even though they are not stated in the law. Philanthropic responsibilities encompass activities in response to the expectations of society that businesses be good corporate citizens. These practices may include volunteer work to promote human welfare, sponsorship to local programs, donations to public and non-profit organizations, etc.



Source: Carroll (1991) The Pyramid of Corporate Social responsibility

Stakeholder Orientation of Ethical Leadership and Corporate Social Responsibility

Ethical responsibility goes far beyond the legal responsibility that are approved or disapproved by the society even though they are not mandatory by the law. The ethical aspect of any organization directs leaders to do the right things which are beneficial to the society as a whole and to the organization itself. It avoids all the harms to the society. Ethics may vary according to the different culture, values and norms of the society and the stakeholders having their stake within the organization; therefore, they may not be alike in different society. According to Carroll (1991) ethical responsibilities are more challenging for an organization since they are much more ambiguous as compared to legal responsibilities and much difficult to anticipate and follow as they are not in the form of written laws by the government.

The moral management approach of ethics adheres to the high standard of right behaviour. Ethical leaders consider sound legal and ethical precepts such as fairness, justice and due process. Ethical leaders use ethical principles like fairness, honesty, integrity, authenticity to effectively manage the stakeholders as in employees, society and shareholders. This implication of ethical leadership acts central and contributes to the corporate social responsibility and corporate social performance. (Carroll 1991)

Significance

This paper highlights the characteristics and qualities of ethical leaders which is imperial for managing stakeholder relationships leading to corporate social responsibility as outcome of Ethical leadership. Ethical leadership helps in managing the stake of the stakeholders in business thus deriving various benefits for the society including well-being of employees, ensuring safety conditions. Also, various charitable organizations have been established as initiatives helping poor people, improving quality and relevance of education to children, sustainable health care services providing old age homes etc. Emphasis on transparency is one of the basic ethical concern which is helping in development of Corporate social responsibility.

Future Scope

In this competitive era managing stakeholder is very essential for survival of the business organization. This paper studies the qualities of stakeholder orientation of ethical leadership playing central role in management of stakeholders leading to corporate social responsibility thus creating a positive image of the business organization in the society. Further there is a lot more scope for exploring outcomes of managing stakeholders via ethical leadership in terms of corporate social performance, corporate citizenship and corporate sustainability.

Conclusion

Stakeholder management is one of the inevitable responsibilities for any business organization to fight the survival competition. Thus, for ensuring long term corporate sustainability ethical leadership plays a dynamic role in managing stakeholders and providing corporate social responsibility as an outcome. The organization with better CSR has a positive image in the eyes of the government as well as the society. So, emphasis must be placed not only to the social responsibility but also to the root cause of enlighten one's ethical responsibility through the ethical leaders.

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